SUBJECT TO & WRAP MORTGAGE REAL ESTATE WHOLESALERS MASTER CLASS

BUY EVERYTHING IN A LIVING TRUST & LAND TRUST & LLC'S

Lead/Property Information Sheet

Student ______________________

Date ______________________ Owner's Name ______________________ ____________

Source ______________________ Cell Phone ______________________ Evening ____________

Address ______________________ ★ Asking Price ______________________

City ______________ State ______ ★ Sellers Estimated Value ______________________

Area of town ______________________ ★ Your comps ______________________

Existing Mortgage Information (must have)

★

1^{st} - $____________ Lender ______________________ __________% Pmt ________

2^{nd} - $____________ Lender ______________________ __________% Pmt ________

Is Payment PITI ____Yes ____No Current? ____Yes ____No$________________ in Arrears

If asking price and loan balance are within $35,000:
Will you sell the house for what you owe on it?
___Yes ___No

If the house has a Mortgage:
If we can agree on a price and we accept all responsibility for future repairs would you consider a lease purchase? ***Yes / No (circle one)***
YES – OK, I'll have my boss call to discuss terms. When is the best time?______ ***(get info below)***
NO – So you're saying if you don't get full price and all cash you won't sell? ***Yes/No (circle one)***
YES – OK, I understand but that wouldn't make sense for us. Thanks ***(stop here)***
NO – OK, I'll have my boss call to discuss several ways he can buy your home. What's the best time to call?____________ ***(get info below)***

If the house is Free & Clear:
If Yes – Will you consider taking monthly payments for your equity? ***Yes/No (circle one)***
If No – Would you consider a lease purchase making us responsible for all repairs? ***Yes/No (circle one)***
YES – I'll have my boss call to discuss terms. When is the best time?________ ***(get info below)***
NO – So you're saying if you don't get full price and all cash you won't sell? ***Yes/No (circle one)***
YES – OK, I understand but that wouldn't make sense for us. Thanks ***(stop here)***
NO – OK, I'll have my boss call to discuss several ways he can buy your home. What's the best time to call?____________ ***(get info below)***

How did you arrive at your asking price? ________________ Reason for selling? ________________

Does it need repairs? _______Yes _______No

★ When do you want to move? ____________________ Is the house listed? ________________

Description:

Bed/Bath: ______________ Square Feet: ________________ Lot Size: ______________

Construction: Frame_____ Brick_____ Block_____ Stucco_____ Other____________

Garage: 0 1 2 Carport: Basement: Refrigerator Range Dishwasher

PURCHASE AND SALE AGREEMENT

This PURCHASE AND SALE AGREEMENT (the "Agreement") is entered into by and between ________________________________ and/or assignee ("Buyer"), with an address of ____ and ____ ("Seller") with an address of ____ .

1. OPENING. The "Opening" will occur upon the date this Agreement is mutually executed and acknowledged by Title, Escrow or Closing Agent/Attorney ("Escrow Agent").

2. PROPERTY. Seller hereby agrees to sell and Buyer hereby agrees to buy the real property in its "as-is" condition with all improvements, fixtures and appurtenances thereon or incidental thereto described below as____ (the "Property").

3. PURCHASE PRICE. The purchase price to be paid at Close of Escrow (COE) defined below by Buyer for the Property is____(\$_____________).

The Purchase Price shall be paid to Seller as follows:

An Earnest Money Deposit (EMD) of \$ _________________.

The balance of \$ _____________________ to be paid at COE.

3. PURCHASE PRICE. The purchase price to be paid at Close of Escrow (COE) defined below by Buyer for the Property is____($______________).

The Purchase Price shall be paid to Seller as follows:

An Earnest Money Deposit (EMD) of $ __________________.

The balance of _______________________ to be paid at COE.

4. EARNEST MONEY DEPOSIT (EMD). to be held in an insured escrow account and held by Escrow Agent and if escrow closes, the earnest money deposit in escrow shall be credited against the Purchase Price. If this Agreement is cancelled by Buyer pursuant to the terms of this Agreement, Buyer becomes entitled to a return of the EMD and Escrow Agent shall immediately refund to Buyer all EMD then in escrow.

5. FINANCING: Funds to purchase property shall be:

______ CASH. “Cash” is defined as capital from Buyer’s personal funds and/or Buyer’s investors, partners and/or other unconventional lending sources. This agreement is NOT contingent on Buyer securing funds to close.

______Subject to Buyer taking over Seller’s existing loan of $_____________________________.

______Seller Financing with the following terms: ____.

_____Traditional Financing contingent on Buyer obtaining the following terms:______________
____.

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_____Traditional Financing contingent on Buyer obtaining the following terms:_____________

____.

6. INSPECTION PERIOD. Buyer's obligations to close this transaction are subject to the satisfaction of Buyer's investigations and inspections of the Property. Buyer shall have until the business day before COE (the "Inspection Period"), during which time Buyer will have the absolute right to cancel this Agreement for any reason whatsoever at Buyer's sole and absolute discretion. Upon such cancellation, Buyer shall be entitled to a return of all EMD held in escrow. Unless Buyer gives written notice of cancellation before the expiration of the Inspection Period, then Buyer will be deemed to have elected not to cancel this Agreement.

BUYER INITIAL(S) _____ _____ **SELLER INITIAL(S)** _____ ____

7. ACCESS TO PROPERTY. Between date of Opening herein and COE, Seller grants Buyer and/or Buyer's employees, inspectors, partners, investors, contractors and/or agent(s) access to Property as follows:

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_______ **VACANT.** If the Property is vacant as of the Opening, Buyer reserves the right to install a lockbox on the Property, which will contain a key to the Property. Seller acknowledges and agrees that the lockbox will permit access to the Property. Seller acknowledges and agrees that there is a risk in having a lockbox on the Property, and that it is possible an unauthorized person may go into the Property. Buyer is not insuring Seller against theft, loss or vandalism resulting from any unauthorized access.

_______ **OCCUPIED.** If the Property is occupied by seller, tenant or otherwise as of the Opening, Seller shall permit Buyer access with 24-hour notice.

8. TENANT OCCUPIED. If Property is currently in use as a rental property, Tenant shall:

_____Vacate Property on or before COE.

_____Continue occupying property according to applicable and current lease agreement. Seller shall deliver the following to Buyer within five days after Opening: (a) current leases of the Property; (b) a certified rent roll (which Seller shall update at least five days before COE); (c) evidence of security deposits on hand, if any.

9. ESCROW AGENT. Seller and Buyer hereby employ ________________________________, Phone ____________________ (the "Escrow Agent"); to act as escrow agent for this transaction. This Agreement

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9. ESCROW AGENT. Seller and Buyer hereby employ ________________________________, Phone ____________________ (the "Escrow Agent"); to act as escrow agent for this transaction. This Agreement constitutes the escrow instructions to Escrow Agent. If required by real estate governance in state of _____, Escrow Agent, is hereby authorized and instructed to prepare and execute on behalf of Buyer and Seller an Affidavit of Property Value, using the Purchase Price for the established value of the Property.

10. CLOSE OF ESCROW. The closing date shall occur on or about __________________________, (the "COE"). COE shall occur when exclusive physical possession is given to Buyer and the deed is recorded at the appropriate county recorder's office. Buyer and Seller shall comply with all terms and conditions of this Agreement, execute and deliver to Escrow Agent all closing documents and perform all other acts necessary for COE to occur. Buyer shall have the right to approve the property's title status before COE. Title to the Property shall be conveyed to Buyer at COE by a General Warranty Deed or equivalent warranty deed used in the local jurisdiction with standard owner's title insurance policy. Buyer shall take title as determined by Buyer before COE.

11. ESCROW AND CLOSING FEES. Closing Fees due at COE with the exception of delinquent property taxes, mortgage liens, mechanics liens, IRS liens, judgements and/or any liens, to be paid as follows:

_____ Buyer and Seller shall each pay their respective Escrow and Closing Fees according to the usual and

necessary for COE to occur. Buyer shall have the right to approve the property's title status before COE. Title to the Property shall be conveyed to Buyer at COE by a General Warranty Deed or equivalent warranty deed used in the local jurisdiction with standard owner's title insurance policy. Buyer shall take title as determined by Buyer before COE.

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____ Buyer and Seller shall each pay their respective Escrow and Closing Fees according to the usual and customary practice in state of ______ .

____ Buyer and Seller agree to split evenly all Escrow and Closing Fees.

____ Buyer shall pay all Escrow and Closing Fees.

____ Seller shall pay all Escrow and Closing Fees.

BUYER INITIAL(S) _____ _____ **SELLER INITIAL(S)** _____ _____

12. PRORATIONS. Real property taxes payable by Seller will be prorated to COE based upon the latest tax information available. The amount of any assessment, other than homeowner's association assessments, that is a lien as of COE shall be paid in full by Seller.

13. PROPERTY TURNOVER. Seller will provide Buyer with the keys to the Property on day of COE.

14. DEBRIS/PERSONAL BELONGINGS. At COE, Seller shall deliver the Property to Buyer:

____ WITH debris and/or personal belongings that are currently present in the property and Buyer assumes all responsibility for trash-out, removal and clean-up of said debris/belongings.

____WITHOUT debris and/or personal belongings. All debris and/or personal belongs to be removed from the interior/exterior of the Property. In the event the Property is not left in a neat and clean condition, Buyer will have clean-up completed at Seller's expense which costs, at Buyer's option, may be deducted from the Purchase Price. Seller's obligation to pay Buyer shall survive the cancellation of this Agreement or COE. Any items remaining in the Property as of COE will be considered trash and removed by the Buyer.

15. APPLIANCES. At COE, all working appliances currently present in the property shall:

___ NOT be included in the sale, herein.

___INCLUDED in the sale, herein with the exception of ____________________________________ ____.

16. ADDITIONAL PERSONAL PROPERTY. The following personal property to be included in the

by the Buyer.

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___INCLUDED in the sale, herein with the exception of ____________________________________
____.

16. ADDITIONAL PERSONAL PROPERTY. The following personal property to be included in the sale herein: if any: ____.

17. MARKETING. If permissible by real estate governance in the state of _____, Seller authorizes Buyer to advertise the Property for sale or rent (as a principal to this contract, not the Seller's broker, agent or representative), and place signs on or advertise online the Property.

18. SELLER'S DELIVERIES. Seller shall deliver the following to Buyer within five days after Opening: (a) a written five-year insurance claims history regarding the Property (or a claims history for the length of time Seller has owned the Property if less than five years) from Seller's Insurance company; (b) any other disclosures to be made by Seller pursuant to applicable law;

19. INVESTOR DISCLOSURE. Seller acknowledges that Buyer is an investor and purchases properties with the intent to lease, "flip," resell, or otherwise make a profit. Seller acknowledges that the Purchase Price may be less than market value, and is willingly selling it as such for convenience, to save time, lack of funds to renovate, and/or other personal reasons. Seller waives any claims against any existing equity

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20. REMEDIES. If Seller fails to comply with any provision of this Agreement, Buyer shall deliver a notice to Seller specifying the non-compliance and if the non-compliance is not cured within three days after delivery of Buyer's notice to Seller, such failure shall be a breach of Agreement, entitling Buyer to pursue any and all remedies available to Buyer under this Agreement or at law or in equity, including, without limitation, an action for specific performance. In the event Buyer is forced to institute legal action to enforce this Agreement, Seller will be held responsible for and hereby agrees to pay all legal fees and

BUYER INITIAL(S) _____ _____ **SELLER INITIAL(S)** _____ _____

pay out of such unpaid Purchase Price funds for any/all of Buyer's attorney's fees and costs as they are incurred.

21. STATEMENT REGARDING LEAD BASED PAINT: The parties acknowledge that dwelling units constructed prior to 1978 are likely to contain lead-based paint which could create a health hazard. In the event that the real property which is the subject of this Agreement consists of or contains a residential unit built prior to 1978, the parties agree that each party has received, reviewed, signed and annexed hereto a completed Disclosure and acknowledgment Form regarding Lead-Based Paint as required by federal HUD/EPA disclosure regulations.

22. REPRESENTATIONS BY SELLER. Seller represents and warrants to Buyer as follows:
A. This Agreement and each of the documents and agreements to be delivered by Seller at COE constitute legal, valid and binding obligations of Seller, enforceable against Seller in accordance with their respective terms.

B. Neither the execution of this Agreement nor the performance by Seller of its obligations under this Agreement will result in any breach or violation of (1) to Seller's actual knowledge, the terms of any law, rule, ordinance, or regulation; or (2) any decree, judgment or order to which Seller is a party now in effect from any court or governmental body; and (3) there are no consents, waivers, authorizations or approvals from any third party necessary to be obtained by Seller In order to carry out the transactions contemplated by this Agreement.

C. The execution and delivery of this Agreement and performance by Seller of its obligations under this Agreement will not result in the creation of any new, or the acceleration of any existing, lien, charge, or

C. The execution and delivery of this Agreement and performance by Seller of its obligations under this Agreement will not result in the creation of any new, or the acceleration of any existing, lien, charge, or encumbrance upon the Property.

D. Seller has no actual knowledge and has received no notice that the Property is not in compliance with all applicable laws governing the use and operation thereof, nor, to Seller's actual knowledge, does there exist any facts or circumstances of the Property which with notice or the passage of time would constitute such a violation.

E. As of Opening, Seller has not entered into any other Agreement or contract to sell the Property.

F. Seller has disclosed to Buyer all material latent defects and any information concerning the Premises known to Seller.

Each of the representations and warranties of Seller contained in this Section constitutes a material part of the consideration to Buyer and Buyer is relying on the correctness and completeness of these representations and warranties in entering into this transaction. Each of the representations and warranties is true and accurate as of the date of execution of this Agreement by Seller, will be true and accurate as of COE and will survive COE.

23. OTHER AGREEMENTS. Seller shall not enter into an Agreement or Contract to purchase with anyone else concerning the Property from and after Opening. Should seller participate in another agreement which will interfere with COE, Seller will be responsible for any and all costs and losses to

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BUYER INITIAL(S) _____ _____ **SELLER INITIAL(S)** _____ _____

24. INDEMNITY AND RELEASE OF CLAIMS. Seller will indemnify Buyer in connection with defending any claim or action against Seller or Buyer. Seller shall defend, indemnify, save and hold Buyer harmless for and against any and all Claims: (a) directly or indirectly relating in any way to the Property and accruing prior to COE; and (b) arising as a result of the breach by Seller of any of Seller's obligation under this Agreement or under any other agreement or document delivered by Seller in accordance with this Agreement, or as a result of the inaccuracy of any representation or warranty made by Seller in this Agreement or in any other agreement or document delivered by Seller pursuant to this Agreement or in connection with the transactions contemplated by this Agreement. "Claims" means any and all obligations, debts, covenants, conditions, representations, costs, and liabilities and any and all demands, causes of action, and claims, of every type, kind, nature or character, direct or indirect, known or unknown, absolute or contingent, determined or speculative, at law, in equity or otherwise, including attorneys' fees and litigation and court costs.

25. AGENCY. Seller acknowledges that seller has NOT been represented by Buyer or by any representative of Buyer with respect to the Purchase and Sale of the Property. Seller agrees and understands that the Buyer that the Buyer's Representatives are NOT acting as Seller's Broker or Agent in the transaction and have been acting solely for Buyer's own benefit as a principal to this Agreement. Seller agrees to hold Buyer free from any/all liability regarding the property and transaction arising from any claim of agency.

26. ASSIGNMENT AND RELEASE. Seller agrees and acknowledges that Buyer may assign its rights

defending any claim or action against Seller or Buyer. Seller shall defend, indemnify, save and hold Buyer harmless for and against any and all Claims: (a) directly or indirectly relating in any way to the Property and accruing prior to COE; and (b) arising as a result of the breach by Seller of any of Seller's obligation under this Agreement or under any other agreement or document delivered by Seller in accordance with this Agreement, or as a result of the inaccuracy of any representation or warranty made by Seller in this Agreement or in any other agreement or document delivered by Seller pursuant to this Agreement or in connection with the transactions contemplated by this Agreement. “Claims” means any and all obligations, debts, covenants, conditions, representations, costs, and liabilities and any and all demands, causes of action, and claims, of every type, kind, nature or character, direct or indirect, known or unknown, absolute or contingent, determined or speculative, at law, in equity or otherwise, including attorneys' fees and litigation and court costs.

25. AGENCY. Seller acknowledges that seller has NOT been represented by Buyer or by any representative of Buyer with respect to the Purchase and Sale of the Property. Seller agrees and understands that the Buyer that the Buyer’s Representatives are NOT acting as Seller’s Broker or Agent in the transaction and have been acting solely for Buyer’s own benefit as a principal to this Agreement. Seller agrees to hold Buyer free from any/all liability regarding the property and transaction arising from any claim of agency.

26. ASSIGNMENT AND RELEASE. Seller agrees and acknowledges that Buyer may assign its rights under this Agreement to a wholly or partially owned entity of the Buyer or a third party that will close directly with Seller. If such an assignment should happen, Seller agrees to release Buyer from any liability or duties under this Agreement.

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27. MISCELLANEOUS.

A. Time. Time is of the essence of this Agreement. The time for performance of any obligation or taking any action under this Agreement shall be deemed to expire at 5:00 p.m. _______(state) time on the last day of the applicable time period provided for in this Agreement. If the time for the performance of any obligation or taking any action under this Agreement expires on a Saturday, Sunday or legal holiday, the time for performance or taking such action shall be extended to the next succeeding day which is not a Saturday, Sunday or legal holiday.

B. Notices. All notices and requests must be in writing. They may be delivered either (a) personally; (b) by certified mail; (c) by fax; or (d) electronically. Notices or requests will be deemed received: 0) when accepted or rejected, if delivered personally, (ii) two days after being mailed, if mailed by certified mail; (c) when a fax confirmation is received, if faxed; or (d) when the receiving party has responded by email confirming receipt (email auto responses do not count).

C. Necessary Documents and Acts. Seller and Buyer each agree to sign such other documents and perform such acts as may be reasonably necessary or appropriate to consummate this transaction in accordance with the terms of this Agreement.

this Agreement shall be stricken from and construed for all purposes not to constitute a part of this Agreement, and the remaining portion of this Agreement shall remain in full force and effect and shall, for all purposes, constitute the entire Agreement.

H. Counterparts. This Agreement may be signed electronically and in counterparts, each together making it a binding agreement.

I. Survival. The following obligations of the parties will survive COE or cancellation of this Agreement, whether contained in this Agreement or in any agreement. instrument, or other document given by a party in connection with the transactions contemplated by this Agreement: (a) any and all obligations of the parties that are to be performed following COE; (b) all Indemnity obligations of the parties; (c) any and all warranties or representations of the parties; and (d) any other obligation with respect to which it is expressly provided that it will survive COE or cancellation of this Agreement.

J. Waivers. No waiver or any provisions of this Agreement shall constitute a waiver of any other provision, whether or not similar, nor shall any waiver be a continuing waiver. Except as expressly provided in this Agreement, no waiver shall be binding unless executed in writing by the party making the waiver.

K. Attorneys' Fees. If either party should prevail in any litigation, arbitration or other legal proceeding instituted by or against the other related to this Agreement, the prevailing party shall receive from the non-prevailing party all costs and reasonable attorneys' fees incurred in such proceeding, including costs on appeal.

the parties and their respective heirs, personal representatives, successors and assigns.

N. Right to Counsel. Seller represents and agrees that Seller fully understands Seller's right to discuss all aspects of this Agreement with an attorney, that Seller has carefully read and fully understands all of the provisions of this Agreement that Seller freely and voluntarily entered into this Agreement and that Seller has read this document in its entirety and fully understands the meaning. intent and consequences of this Agreement. This representation will survive this Agreement's termination.

BUYER INITIAL(S) _____ _____ **SELLER INITIAL(S)** _____ ____

O. Governing Law/Jurisdiction. This Agreement shall be governed by and construed and enforced under the laws of the state of ____ whose courts shall have jurisdiction over any legal proceedings or

O. Governing Law/Jurisdiction. This Agreement shall be governed by and construed and enforced under the laws of the state of ____ whose courts shall have jurisdiction over any legal proceedings or actions arising out of this Agreement. ____________ County, in the state of ____ shall be the place of venue of any such proceeding or action.

P. Acceptance. This agreement shall remain in full force and effect until ______o'clock local time on ____________(date). If at this time the Seller has not executed and delivered a fully executed original agreement, the contract shall become of no force and effect.

28. ANY OTHER TERMS AND CONDITIONS (If None Write None):

____

____

____

____

SELLER(S): ____________________ Signature Date ____________________ Signature Date

O. Governing Law/Jurisdiction. This Agreement shall be governed by and construed and enforced under the laws of the state of ____ whose courts shall have jurisdiction over any legal proceedings or actions arising out of this Agreement. ____________ County, in the state of ____ shall be the place of venue of any [illegible] proceeding or action.

P. Acceptance. This agreement shall remain in full force and effect until ______o'clock local time on ____________(date). If at this time the Seller has not executed and delivered a fully executed original agreement, the contract will become of no force and effect.

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____

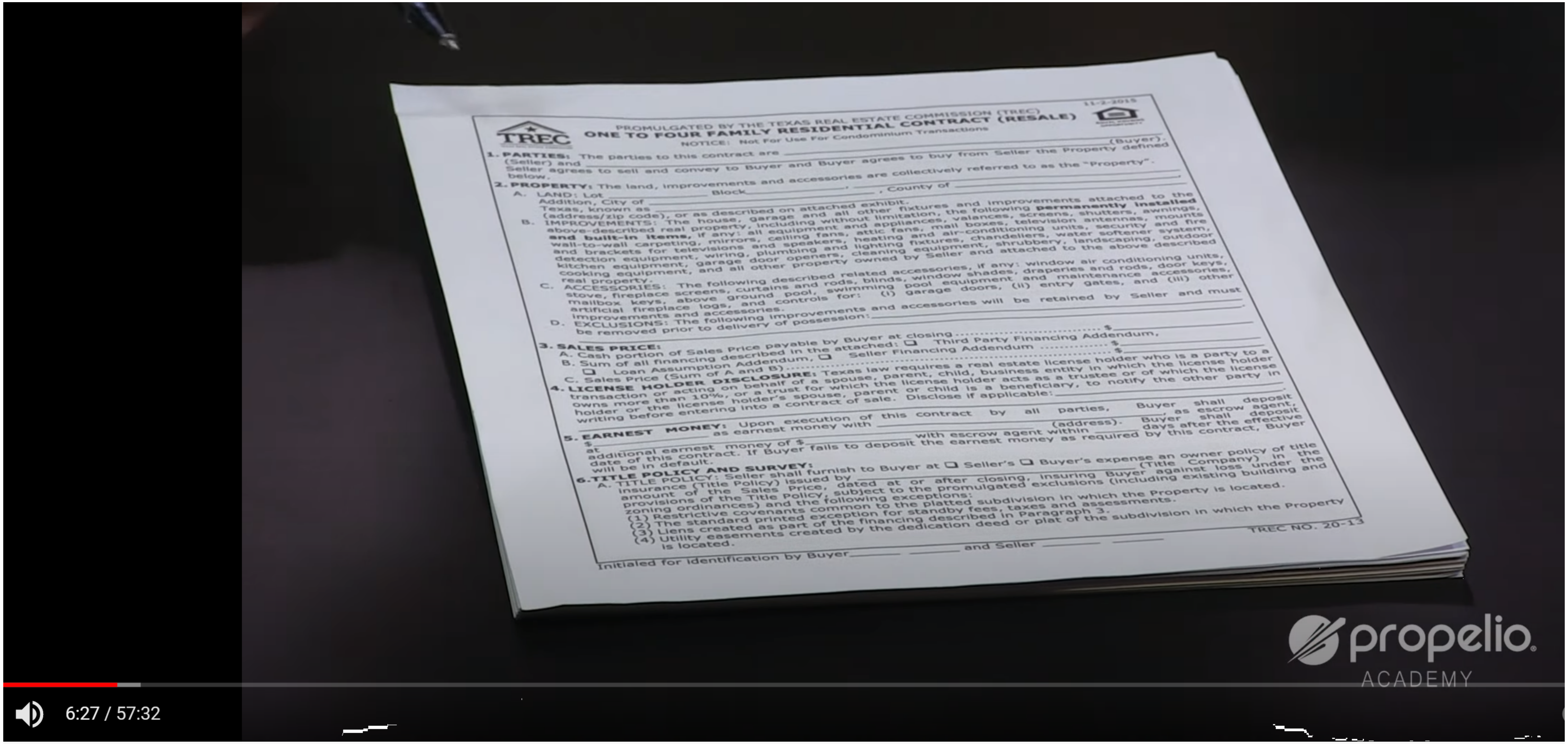
____

____

____

SELLER(S): ________________________________ ________________________________

Signature Date Signature Date



PROMULGATED BY THE TEXAS REAL ESTATE COMMISSION (TREC)

11-2-2015

TREC

ONE TO FOUR FAMILY RESIDENTIAL CONTRACT (RESALE)

NOTICE: Not For Use For Condominium Transactions

1. PARTIES: The parties to this contract are ____ (Seller) and ____ (Buyer). Seller agrees to sell and convey to Buyer and Buyer agrees to buy from Seller the Property defined below.

2. PROPERTY: The land, improvements and accessories are collectively referred to as the "Property".

A. LAND: Lot ____ Block ____, ____ Addition, City of ____, County of ____, Texas, known as ____ (address/zip code), or as described on attached exhibit.

B. IMPROVEMENTS: The house, garage and all other fixtures and improvements attached to the above-described real property, including without limitation, the following **permanently installed and built-in items**, if any: all equipment and appliances, valances, screens, shutters, awnings, wall-to-wall carpeting, mirrors, ceiling fans, attic fans, mail boxes, television antennas, mounts and brackets for televisions and speakers, heating and air-conditioning units, security and fire detection equipment, wiring, plumbing and lighting fixtures, chandeliers, water softener system, kitchen equipment, garage door openers, cleaning equipment, shrubbery, landscaping, outdoor cooking equipment, and all other property owned by Seller and attached to the above described real property.

C. ACCESSORIES: The following described related accessories, if any: window air conditioning units, stove, fireplace screens, curtains and rods, blinds, window shades, draperies and rods, door keys, mailbox keys, above ground pool, swimming pool equipment and maintenance accessories, artificial fireplace logs, and controls for: (i) garage doors, (ii) entry gates, and (iii) other improvements and accessories.

D. EXCLUSIONS: The following improvements and accessories will be retained by Seller and must be removed prior to delivery of possession: ____

3. SALES PRICE:

A. Cash portion of Sales Price payable by Buyer at closing .... $ ____

B. Sum of all financing described in the attached: ☐ Third Party Financing Addendum, ☐ Loan Assumption Addendum, ☐ Seller Financing Addendum .... $ ____

C. Sales Price (Sum of A and B) .... $ ____

4. LICENSE HOLDER DISCLOSURE: Texas law requires a real estate license holder who is a party to a transaction or acting on behalf of a spouse, parent, child, business entity in which the license holder owns more than 10%, or a trust for which the license holder acts as a trustee or of which the license holder or the license holder's spouse, parent or child is a beneficiary, to notify the other party in writing before entering into a contract of sale. Disclose if applicable: ____

5. EARNEST MONEY: Upon execution of this contract by all parties, Buyer shall deposit $ ____ as earnest money with ____, as escrow agent, at ____ (address). Buyer shall deposit additional earnest money of $ ____ with escrow agent within ____ days after the effective date of this contract. If Buyer fails to deposit the earnest money as required by this contract, Buyer will be in default.

6. TITLE POLICY AND SURVEY:

A. TITLE POLICY: Seller shall furnish to Buyer at ☐ Seller's ☐ Buyer's expense an owner policy of title insurance (Title Policy) issued by ____ (Title Company) in the amount of the Sales Price, dated at or after closing, insuring Buyer against loss under the provisions of the Title Policy, subject to the promulgated exclusions (including existing building and zoning ordinances) and the following exceptions:

(1) Restrictive covenants common to the platted subdivision in which the Property is located.

(2) The standard printed exception for standby fees, taxes and assessments.

(3) Liens created as part of the financing described in Paragraph 3.

(4) Utility easements created by the dedication deed or plat of the subdivision in which the Property is located.

Initialed for identification by Buyer ____ ____ and Seller ____ ____ TREC NO. 20-13

How to contract a Seller - Subject to Contracts

All Sales Related

PROMULGATED BY THE TEXAS REAL ESTATE COMMISSION (TREC)

TREC

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2. PROPERTY: The land, improvements and accessories are collectively referred to as the "Property".

A. LAND: Lot __________ Block __________, __________ Addition, City of __________, County of __________, Texas, known as __________ (address/zip code), or as described on attached exhibit.

B. IMPROVEMENTS: The house, garage and all other fixtures and improvements attached to the above-described real property, including without limitation, the following **permanently installed and built-in items**, if any: all equipment and appliances, valances, screens, shutters, awnings, wall-to-wall carpeting, mirrors, ceiling fans, attic fans, mail boxes, television antennas, mounts and brackets for televisions and speakers, heating and air-conditioning units, security and fire detection equipment, wiring, plumbing and lighting fixtures, chandeliers, water softener system, kitchen equipment, garage door openers, cleaning equipment, shrubbery, landscaping, outdoor cooking equipment, and all other property owned by Seller and attached to the above described real property.

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B. Sum of all financing described in the attached: ❑ Third Party Financing Addendum, ❑ Loan Assumption Addendum, ❑ Seller Financing Addendum .... $__________

C. Sales Price (Sum of A and B) .... $__________

4. LICENSE HOLDER DISCLOSURE: Texas law requires a real estate license holder who is a party to a transaction or acting on behalf of a spouse, parent, child, business entity in which the license holder owns more than 10%, or a trust for which the license holder acts as a trustee or of which the license holder or the license holder's spouse, parent or child is a beneficiary, to notify the other party in writing before entering into a contract of sale. Disclose if applicable: __________

5. EARNEST MONEY: Upon execution of this contract by all parties, Buyer shall deposit $__________ as earnest money with __________, as escrow agent, at __________ (address). Buyer shall deposit additional earnest money of $__________ with escrow agent within ______ days after the effective date of this contract. If Buyer fails to deposit the earnest money as required by this contract, Buyer will be in default.

6. TITLE POLICY AND SURVEY:

A. TITLE POLICY: Seller shall furnish to Buyer at ❑ Seller's ❑ Buyer's expense an owner policy of title insurance (Title Policy) issued by __________ (Title Company) in the amount of the Sales Price, dated at or after closing, insuring Buyer against loss under the provisions of the Title Policy, subject to the promulgated exclusions (including existing building and zoning ordinances) and the following exceptions:

(1) Restrictive covenants common to the platted subdivision in which the Property is located.
(2) The standard printed exception for standby fees, taxes and assessments.
(3) Liens created as part of the financing described in Paragraph 3.
(4) Utility easements created by the dedication deed or plat of the subdivision in which the Property is located.

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...sories are collectively referred to as the "Property".

A. LAND: Lot ________ Block ________, ________ Addition, City of ________, County of ________, Texas, known as ________ (address/zip code), or as described on attached exhibit.

B. IMPROVEMENTS: The house, garage and all other fixtures and improvements attached to the above-described real property, including without limitation, the following **permanently installed and built-in items**, if any: all equipment and appliances, valances, screens, shutters, awnings, wall-to-wall carpeting, mirrors, ceiling fans, attic fans, mail boxes, television antennas, mounts and brackets for televisions and speakers, heating and air-conditioning units, security and fire detection equipment, wiring, plumbing and lighting fixtures, chandeliers, water softener system, kitchen equipment, garage door openers, cleaning equipment, shrubbery, landscaping, outdoor cooking equipment, and all other property owned by Seller and attached to the above described real property.

C. ACCESSORIES: The following described related accessories, if any: window air conditioning units, stove, fireplace screens, curtains and rods, blinds, window shades, draperies and rods, door keys, mailbox keys, above ground pool, swimming pool equipment and maintenance accessories, artificial fireplace logs, and controls for: (i) garage doors, (ii) entry gates, and (iii) other improvements and accessories.

D. EXCLUSIONS: The following improvements and accessories will be retained by Seller and must be removed prior to delivery of possession: ________.

3. SALES PRICE:

A. Cash portion of Sales Price payable by Buyer at closing .... $________

B. Sum of all financing described in the attached: ❑ Third Party Financing Addendum, ❑ Loan Assumption Addendum, ❑ Seller Financing Addendum .... $________

C. Sales Price (Sum of A and B) .... $________

4. LICENSE HOLDER DISCLOSURE: Texas law requires a real estate license holder who is a party to a transaction or acting on behalf of a spouse, parent, child, business entity in which the license holder owns more than 10%, or a trust for which the license holder acts as a trustee or of which the license holder or the license holder's spouse, parent or child is a beneficiary, to notify the other party in writing before entering into a contract of sale. Disclose if applicable: ________.

5. EARNEST MONEY: Upon execution of this contract by all parties, Buyer shall deposit $________ as earnest money with ________, as escrow agent, at ________ (address). Buyer shall deposit additional earnest money of $________ with escrow agent within ________ days after the effective date of this contract. If Buyer fails to deposit the earnest money as required by this contract, Buyer will be in default.

6. TITLE POLICY AND SURVEY:

A. TITLE POLICY: Seller shall furnish to Buyer at ❑ Seller's ❑ Buyer's expense an owner policy of title insurance (Title Policy) issued by ________ (Title Company) in the amount of the Sales Price, dated at or after closing, insuring Buyer against loss under the provisions of the Title Policy, subject to the promulgated exclusions (including existing building and zoning ordinances) and the following exceptions:

(1) Restrictive covenants common to the platted subdivision in which the Property is located.
(2) The standard printed exception for standby fees, taxes and assessments.
(3) Liens created as part of the financing described in Paragraph 3.
(4) Utility easements created by the dedication deed or plat of the subdivision in which the Property is located.

(5) Reservations or exceptions otherwise permitted by this contract or as may be approved by Buyer in writing.
(6) The standard printed exception as to marital rights.
(7) The standard printed exception as to waters, tidelands, beaches, streams, and related matters.
(8) The standard printed exception as to discrepancies, conflicts, shortages in area or boundary lines, encroachments or protrusions, or overlapping improvements: ☐(i) will not be amended or deleted from the title policy; or ☐(ii) will be amended to read, "shortages in area" at the expense of ☐Buyer ☐Seller.

B. COMMITMENT: Within 20 days after the Title Company receives a copy of this contract, Seller shall furnish to Buyer a commitment for title insurance (Commitment) and, at Buyer's expense, legible copies of restrictive covenants and documents evidencing exceptions in the Commitment (Exception Documents) other than the standard printed exceptions. Seller authorizes the Title Company to deliver the Commitment and Exception Documents to Buyer at Buyer's address shown in Paragraph 21. If the Commitment and Exception Documents are not delivered to Buyer within the specified time, the time for delivery will be automatically extended up to 15 days or 3 days before the Closing Date, whichever is earlier. If, due to factors beyond Seller's control, the Commitment and Exception Documents are not delivered within the time required, Buyer may terminate this contract and the earnest money will be refunded to Buyer.

C. SURVEY: The survey must be made by a registered professional land surveyor acceptable to the Title Company and Buyer's lender(s). (Check one box only)

☐(1) Within ________ days after the effective date of this contract, Seller shall furnish to Buyer and Title Company Seller's existing survey of the Property and a Residential Real Property Affidavit promulgated by the Texas Department of Insurance (T-47 Affidavit). **If Seller fails to furnish the existing survey or affidavit within the time prescribed, Buyer shall obtain a new survey at Seller's expense no later than 3 days prior to Closing Date.** If the existing survey or affidavit is not acceptable to Title Company or Buyer's lender(s), Buyer shall obtain a new survey at ☐Seller's ☐Buyer's expense no later than 3 days prior to Closing Date.

☐(2) Within ________ days after the effective date of this contract, Buyer shall obtain a new survey at Buyer's expense. Buyer is deemed to receive the survey on the date of actual receipt or the date specified in this paragraph, whichever is earlier.

☐(3) Within ________ days after the effective date of this contract, Seller, at Seller's expense shall furnish a new survey to Buyer.

D. OBJECTIONS: Buyer may object in writing to defects, exceptions, or encumbrances to title: disclosed on the survey other than items 6A(1) through (7) above; disclosed in the Commitment other than items 6A(1) through (8) above; or which prohibit the following use or activity: ____

Buyer must object the earlier of (i) the Closing Date or (ii) ________ days after Buyer receives the Commitment, Exception Documents, and the survey. Buyer's failure to object within the time allowed will constitute a waiver of Buyer's right to object; except that the requirements in Schedule C of the Commitment are not waived by Buyer. Provided Seller is not obligated to incur any expense, Seller shall cure the timely objections of Buyer or any third party lender within 15 days after Seller receives the objections and the Closing Date will be extended as necessary. If objections are not cured within such 15 day period, this contract will terminate and the earnest money will be refunded to Buyer unless Buyer waives the objections.

E. TITLE NOTICES:
(1) ABSTRACT OR TITLE POLICY: Broker advises Buyer to have an abstract of title covering the Property examined by an attorney of Buyer's selection, or Buyer should be furnished with or obtain a Title Policy. If a Title Policy is furnished, the Commitment should be promptly reviewed by an attorney of Buyer's choice due to the time limitations on Buyer's right to object.
(2) MEMBERSHIP IN PROPERTY OWNERS ASSOCIATION(S): The Property ☐is ☐is not subject to mandatory membership in a property owners association(s). If the Property is subject to mandatory membership in a property owners association(s), Seller notifies Buyer under §5.012, Texas Property Code, that, as a purchaser of property in the residential community identified in Paragraph 2A in which the Property is located, you are obligated to be a member of the property owners association(s) [illegible] residential [illegible]

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(5) Reservations or exceptions otherwise permitted by this contract or as may be approved by Buyer in writing.
(6) The standard printed exception as to marital rights.
(7) The standard printed exception as to waters, tidelands, beaches, streams, and related matters.
(8) The standard printed exception as to discrepancies, conflicts, shortages in area or boundary lines, encroachments or protrusions, or overlapping improvements: ❑(i) will not be amended or deleted from the title policy; or ❑(ii) will be amended to read, "shortages in area" at the expense of ❑Buyer ❑Seller.

B. COMMITMENT: Within 20 days after the Title Company receives a copy of this contract, Seller shall furnish to Buyer a commitment for title insurance (Commitment) and, at Buyer's expense, legible copies of restrictive covenants and documents evidencing exceptions in the Commitment (Exception Documents) other than the standard printed exceptions. Seller authorizes the Title Company to deliver the Commitment and Exception Documents to Buyer at Buyer's address shown in Paragraph 21. If the Commitment and Exception Documents are not delivered to Buyer within the specified time, the time for delivery will be automatically extended up to 15 days or 3 days before the Closing Date, whichever is earlier. If, due to factors beyond Seller's control, the Commitment and Exception Documents are not delivered within the time required, Buyer may terminate this contract and the earnest money will be refunded to Buyer.

C. SURVEY: The survey must be made by a registered professional land surveyor acceptable to the Title Company and Buyer's lender(s). (Check one box only)
❑(1) Within ______ days after the effective date of this contract, Seller shall furnish to Buyer and Title Company Seller's existing survey of the Property and a Residential Real Property Affidavit promulgated by the Texas Department of Insurance (T-47 Affidavit). **If Seller fails to furnish the existing survey or affidavit within the time prescribed, Buyer shall obtain a new survey at Seller's expense no later than 3 days prior to Closing Date.** If the existing survey or affidavit is not acceptable to Title Company or Buyer's lender(s), Buyer shall obtain a new survey at ❑Seller's ❑Buyer's expense no later than 3 days prior to Closing Date.
❑(2) Within ______ days after the effective date of this contract, Buyer shall obtain a new survey at Buyer's expense. Buyer is deemed to receive the survey on the date of actual receipt or the date specified in this paragraph, whichever is earlier.
❑(3) Within ______ days after the effective date of this contract, Seller, at Seller's expense shall furnish a new survey to Buyer.

D. OBJECTIONS: Buyer may object in writing to defects, exceptions, or encumbrances to title: disclosed on the survey other than items 6A(1) through (7) above; disclosed in the Commitment other than items 6A(1) through (8) above; or which prohibit the following use or activity: ______________________________.
Buyer must object the earlier of (i) the Closing Date or (ii) ______ days after Buyer receives the Commitment, Exception Documents, and the survey. Buyer's failure to object within the time allowed will constitute a waiver of Buyer's right to object; except that the requirements in Schedule C of the Commitment are not waived by Buyer. Provided Seller is not obligated to incur any expense, Seller shall cure the timely objections of Buyer or any third party lender within 15 days after Seller receives the objections and the Closing Date will be extended as necessary. If objections are not cured within such 15 day period, this contract will terminate and the earnest money will be refunded to Buyer unless Buyer waives the objections.

E. TITLE NOTICES:
(1) ABSTRACT OR TITLE POLICY: Broker advises Buyer to have an abstract of title covering the Property examined by an attorney of Buyer's selection, or Buyer should be furnished with or obtain a Title Policy. If a Title Policy is furnished, the Commitment should be promptly reviewed by an attorney of Buyer's choice due to the time limitations on Buyer's right to object.
(2) MEMBERSHIP IN PROPERTY OWNERS ASSOCIATION(S): The Property ❑is ❑is not subject to mandatory membership in a property owners association(s). If the Property is subject to mandatory memb... property owners ...at, as a purchaser of property in the Buyer under §5.012, Texas ... in which the Property is located, you are residential community identi... ers association(s). Restrictive covenants obligated to be a member ... roperty and all dedicatory instruments governing the use and o... operation of this residential community governing the establishme... perty Records of the county in which the have been or will be recor... ovenants and dedicatory instruments may Property is located. Copies ... **obligated to pay assessments to the** be obtained from the cou... **ount of the assessments is subject to** **property owners assoc...**

(5) Reservations or exceptions otherwise permitted by this contract or as may be approved by Buyer in writing.
(6) The standard printed exception as to marital rights.
(7) The standard printed exception as to waters, tidelands, beaches, streams, and related matters.
(8) The standard printed exception as to discrepancies, conflicts, shortages in area or boundary lines, encroachments or protrusions, or overlapping improvements: ❑(i) will not be amended or deleted from the title policy; or ❑(ii) will be amended to read, "shortages in area" at the expense of ❑Buyer ❑Seller.

B. COMMITMENT: Within 20 days after the Title Company receives a copy of this contract, Seller shall furnish to Buyer a commitment for title insurance (Commitment) and, at Buyer's expense, legible copies of restrictive covenants and documents evidencing exceptions in the Commitment (Exception Documents) other than the standard printed exceptions. Seller authorizes the Title Company to deliver the Commitment and Exception Documents to Buyer at Buyer's address shown in Paragraph 21. If the Commitment and Exception Documents are not delivered to Buyer within the specified time, the time for delivery will be automatically extended up to 15 days or 3 days before the Closing Date, whichever is earlier. If, due to factors beyond Seller's control, the Commitment and Exception Documents are not delivered within the time required, Buyer may terminate this contract and the earnest money will be refunded to Buyer.

C. SURVEY: The survey must be made by a registered professional land surveyor acceptable to the Title Company and Buyer's lender(s). (Check one box only)

❑(1) Within ______ days after the effective date of this contract, Seller shall furnish to Buyer and Title Company Seller's existing survey of the Property and a Residential Real Property Affidavit promulgated by the Texas Department of Insurance (T-47 Affidavit). **If Seller fails to furnish the existing survey or affidavit within the time prescribed, Buyer shall obtain a new survey at Seller's expense no later than 3 days prior to Closing Date.** If the existing survey or affidavit is not acceptable to Title Company or Buyer's lender(s), Buyer shall obtain a new survey at ❑Seller's ❑Buyer's expense no later than 3 days prior to Closing Date.

❑(2) Within ______ days after the effective date of this contract, Buyer shall obtain a new survey at Buyer's expense. Buyer is deemed to receive the survey on the date of actual receipt or the date specified in this paragraph, whichever is earlier.

❑(3) Within ______ days after the effective date of this contract, Seller, at Seller's expense shall furnish a new survey to Buyer.

D. OBJECTIONS: Buyer may object in writing to defects, exceptions, or encumbrances to title: disclosed on the survey other than items 6A(1) through (7) above; disclosed in the Commitment other than items 6A(1) through (8) above; or which prohibit the following use or activity: ______________________.

Buyer must object the earlier of (i) the Closing Date or (ii) ______ days after Buyer receives the Commitment, Exception Documents, and the survey. Buyer's failure to object within the time allowed will constitute a waiver of Buyer's right to object; except that the requirements in Schedule C of the Commitment are not waived by Buyer. Provided Seller is not obligated to incur any expense, Seller shall cure the timely objections of Buyer or any third party lender within 15 days after Seller receives the objections and the Closing Date will be extended as necessary. If objections are not cured within such 15 day period, this contract will terminate and the earnest money will be refunded to Buyer unless Buyer waives the objections.

E. TITLE NOTICES:
(1) ABSTRACT OR TITLE POLICY: Broker advises Buyer to have an abstract of title covering the Property examined by an attorney of Buyer's selection, or Buyer should be furnished with or obtain a Title Policy. If a Title Policy is furnished, the Commitment should be promptly reviewed by an attorney of Buyer's choice due to the time limitations on Buyer's right to object.
(2) MEMBERSHIP IN PROPERTY OWNERS ASSOCIATION(S): The Property ❑is ❑is not subject to mandatory membership in a property owners association(s). If the Property is subject to mandatory membership in a property owners association(s), Seller notifies Buyer under §5.012, Texas Property Code, that, as a purchaser of property in the residential community identified in Paragraph 2A in which the Property is located, you are obligated to be a member of the property owners association(s). Restrictive covenants governing the use and occupancy of the Property and all dedicatory instruments governing the establishment, maintenance, or operation of this residential community have been or will be recorded in the Real Property Records of the county in which the Property is located. Copies of the restrictive covenants and dedicatory instruments may be obtained from the county clerk. **You are obligated to pay assessments to the property owners association(s). The amount of the assessments is subject to**

change. Your failure to pay the assessments could result in enforcement of the association's lien on and the foreclosure of the Property.
Section 207.003, Property Code, entitles an owner to receive copies of any document that governs the establishment, maintenance, or operation of a subdivision, including, but not limited to, restrictions, bylaws, rules and regulations, and a resale certificate from a property owners' association. A resale certificate contains information including, but not limited to, statements specifying the amount and frequency of regular assessments and the style and cause number of lawsuits to which the property owners' association is a party, other than lawsuits relating to unpaid ad valorem taxes of an individual member of the association. These documents must be made available to you by the property owners' association or the association's agent on your request.
If Buyer is concerned about these matters, the TREC promulgated Addendum for Property Subject to Mandatory Membership in a Property Owners Association(s) should be used.

(3) STATUTORY TAX DISTRICTS: If the Property is situated in a utility or other statutorily created district providing water, sewer, drainage, or flood control facilities and services, Chapter 49, Texas Water Code, requires Seller to deliver and Buyer to sign the statutory notice relating to the tax rate, bonded indebtedness, or standby fee of the district prior to final execution of this contract.

(4) TIDE WATERS: If the Property abuts the tidally influenced waters of the state, §33.135, Texas Natural Resources Code, requires a notice regarding coastal area property to be included in the contract. An addendum containing the notice promulgated by TREC or required by the parties must be used.

(5) ANNEXATION: If the Property is located outside the limits of a municipality, Seller notifies Buyer under §5.011, Texas Property Code, that the Property may now or later be included in the extraterritorial jurisdiction of a municipality and may now or later be subject to annexation by the municipality. Each municipality maintains a map that depicts its boundaries and extraterritorial jurisdiction. To determine if the Property is located within a municipality's extraterritorial jurisdiction or is likely to be located within a municipality's extraterritorial jurisdiction, contact all municipalities located in the general proximity of the Property for further information.

(6) PROPERTY LOCATED IN A CERTIFICATED SERVICE AREA OF A UTILITY SERVICE PROVIDER: Notice required by §13.257, Water Code: The real property, described in Paragraph 2, that you are about to purchase may be located in a certificated water or sewer service area, which is authorized by law to provide water or sewer service to the properties in the certificated area. If your property is located in a certificated area there may be special costs or charges that you will be required to pay before you can receive water or sewer service. There may be a period required to construct lines or other facilities necessary to provide water or sewer service to your property. You are advised to determine if the property is in a certificated area and contact the utility service provider to determine the cost that you will be required to pay and the period, if any, that is required to provide water or sewer service to your property. The undersigned Buyer hereby acknowledges receipt of the foregoing notice at or before the execution of a binding contract for the purchase of the real property described in Paragraph 2 or at closing of purchase of the real property.

(7) PUBLIC IMPROVEMENT DISTRICTS: If the Property is in a public improvement district, §5.014, Property Code, requires Seller to notify Buyer as follows: As a purchaser of this parcel of real property you are obligated to pay an assessment to a municipality or county for an improvement project undertaken by a public improvement district under Chapter 372, Local Government Code. The assessment may be due annually or in periodic installments. More information concerning the amount of the assessment and the due dates of that assessment may be obtained from the municipality or county levying the assessment. The amount of the assessments is subject to change. Your failure to pay the assessments could result in a lien on and the foreclosure of your property.

(8) TRANSFER FEES: If the Property is subject to a private transfer fee obligation, §5.205, Property Code, requires Seller to notify Buyer as follows: The private transfer fee obligation may be governed by Chapter 5, Subchapter G of the Texas Property Code.

(9) PROPANE GAS SYSTEM SERVICE AREA: If the Property is located in a propane gas system service area owned by a distribution system retailer, Seller must give Buyer written notice as required by §141.010, Texas Utilities Code. An addendum containing the notice approved by TREC or required by the parties should be used.

(10) NOTICE OF WATER LEVEL FLUCTUATIONS: If the Property adjoins an impoundment of water, including a reservoir or lake, constructed and maintained under Chapter 11, Water Code, that has a storage capacity of at least 5,000 acre-feet at the impoundment's normal operating level, Seller hereby notifies Buyer: "The water level of the impoundment of water adjoining the Property fluctuates for various reasons, including as

a result of: (1) an entity lawfully exercising its right to use the water stored in the impoundment; or (2) drought or flood conditions."

7. PROPERTY CONDITION:

A. ACCESS, INSPECTIONS AND UTILITIES: Seller shall permit Buyer and Buyer's agents access to the Property at reasonable times. Buyer may have the Property inspected by inspectors selected by Buyer and licensed by TREC or otherwise permitted by law to make inspections. Any hydrostatic testing must be separately authorized by Seller in writing. Seller at Seller's expense shall immediately cause existing utilities to be turned on and shall keep the utilities on during the time this contract is in effect.

B. SELLER'S DISCLOSURE NOTICE PURSUANT TO §5.008, TEXAS PROPERTY CODE (Notice):
(Check one box only)

☐ (1) Buyer has received the Notice.

☐ (2) Buyer has not received the Notice. Within ______ days after the effective date of this contract, Seller shall deliver the Notice to Buyer. If Buyer does not receive the Notice, Buyer may terminate this contract at any time prior to the closing and the earnest money will be refunded to Buyer. If Seller delivers the Notice, Buyer may terminate this contract for any reason within 7 days after Buyer receives the Notice or prior to the closing, whichever first occurs, and the earnest money will be refunded to Buyer.

☐ (3) The Seller is not required to furnish the notice under the Texas Property Code.

C. SELLER'S DISCLOSURE OF LEAD-BASED PAINT AND LEAD-BASED PAINT HAZARDS is required by Federal law for a residential dwelling constructed prior to 1978.

D. ACCEPTANCE OF PROPERTY CONDITION: "As Is" means the present condition of the Property with any and all defects and without warranty except for the warranties of title and the warranties in this contract. Buyer's agreement to accept the Property As Is under Paragraph 7D(1) or (2) does not preclude Buyer from inspecting the Property under Paragraph 7A, from negotiating repairs or treatments in a subsequent amendment, or from terminating this contract during the Option Period, if any.
(Check one box only)

☐ (1) Buyer accepts the Property As Is.

☐ (2) Buyer accepts the Property As Is provided Seller, at Seller's expense, shall complete the following specific repairs and treatments: ____.

(Do not insert general phrases, such as "subject to inspections" that do not identify specific repairs and treatments.)

E. LENDER REQUIRED REPAIRS AND TREATMENTS: Unless otherwise agreed in writing, neither party is obligated to pay for lender required repairs, which includes treatment for wood destroying insects. If the parties do not agree to pay for the lender required repairs or treatments, this contract will terminate and the earnest money will be refunded to Buyer. If the cost of lender required repairs and treatments exceeds 5% of the Sales Price, Buyer may terminate this contract and the earnest money will be refunded to Buyer.

F. COMPLETION OF REPAIRS AND TREATMENTS: Unless otherwise agreed in writing: (i) Seller shall complete all agreed repairs and treatments prior to the Closing Date; and (ii) all required permits must be obtained, and repairs and treatments must be performed by persons who are licensed to provide such repairs or treatments or, if no license is required by law, are commercially engaged in the trade of providing such repairs or treatments. At Buyer's election, any transferable warranties received by Seller with respect to the repairs and treatments will be transferred to Buyer at Buyer's expense. If Seller fails to complete any agreed repairs and treatments prior to the Closing Date, Buyer may exercise remedies under Paragraph 15 or extend the Closing Date up to 5 days if necessary for Seller to complete the repairs and treatments.

G. ENVIRONMENTAL MATTERS: Buyer is advised that the presence of wetlands, toxic substances, including asbestos and wastes or other environmental hazards, or the presence of a threatened or endangered species or its habitat may affect Buyer's intended use of the Property. If Buyer is concerned about these matters, an addendum promulgated by TREC or required by the parties should be used.

H. RESIDENTIAL SERVICE CONTRACTS: Buyer may purchase a residential service contract from a residential service company licensed by TREC. If Buyer purchases a residential service contract, Seller shall reimburse Buyer at closing for the cost of the residential service contract in an amount not exceeding $______________. Buyer should review any residential service contract for the scope of coverage, exclusions and limitations. **The purchase of a residential service contract is optional. Similar coverage may be purchased from various companies authorized to do business in Texas.**

8. BROKERS' FEES: All obligations of the parties for payment of brokers' fees are contained in separate written agreements.

9. CLOSING:

A. The closing of the sale will be on or before ______________, 20____, or within 7 days after objections made under Paragraph 6D have been cured or waived, whichever date is later (Closing Date). If either party fails to close the sale by the Closing Date, the non-defaulting party may exercise the remedies contained in Paragraph 15.

B. At closing:

(1) Seller shall execute and deliver a general warranty deed conveying title to the Property to Buyer and showing no additional exceptions to those permitted in Paragraph 6 and furnish tax statements or certificates showing no delinquent taxes on the Property.

(2) Buyer shall pay the Sales Price in good funds acceptable to the escrow agent.

(3) Seller and Buyer shall execute and deliver any notices, statements, certificates, affidavits, releases, loan documents and other documents reasonably required for the closing of the sale and the issuance of the Title Policy.

(4) There will be no liens, assessments, or security interests against the Property which will not be satisfied out of the sales proceeds unless securing the payment of any loans assumed by Buyer and assumed loans will not be in default.

(5) If the Property is subject to a residential lease, Seller shall transfer security deposits (as defined under §92.102, Property Code), if any, to Buyer. In such an event, Buyer shall deliver to the tenant a signed statement acknowledging that the Buyer has acquired the Property and is responsible for the return of the security deposit, and specifying the exact dollar amount of the security deposit.

10. POSSESSION:

A. Buyer's Possession: Seller shall deliver to Buyer possession of the Property in its present or required condition, ordinary wear and tear excepted: ☐upon closing and funding ☐according to a temporary residential lease form promulgated by TREC or other written lease required by the parties. Any possession by Buyer prior to closing or by Seller after closing which is not authorized by a written lease will establish a tenancy at sufferance relationship between the parties. **Consult your insurance agent prior to change of ownership and possession because insurance coverage may be limited or terminated. The absence of a written lease or appropriate insurance coverage may expose the parties to economic loss.**

B. Leases:

(1) After the Effective Date, Seller may not execute any lease (including but not limited to mineral leases) or convey any interest in the Property without Buyer's written consent.

(2) If the Property is subject to any lease to which Seller is a party, Seller shall deliver to Buyer copies of the lease(s) and any move-in condition form signed by the tenant within 7 days after the Effective Date of the contract.

11. SPECIAL PROVISIONS: (Insert only factual statements and business details applicable to the sale. TREC rules prohibit license holders from adding factual statements or business details for which a contract addendum, lease or other form has been promulgated by TREC for mandatory use.)

12. SETTLEMENT AND OTHER EXPENSES:

A. The following expenses must be paid at or prior to closing:

(1) Expenses payable by Seller (Seller's Expenses):

(a) Releases of existing liens, including prepayment penalties and recording fees; release of Seller's loan liability; tax statements or certificates; preparation of deed; one-half of escrow fee; and other expenses payable by Seller under this contract.

(b) Seller shall also pay an amount not to exceed $____________ to be applied in the following order: Buyer's Expenses which Buyer is prohibited from paying by FHA, VA, Texas Veterans Land Board or other governmental loan programs, and then to other Buyer's Expenses as allowed by the lender.

(2) Expenses payable by Buyer (Buyer's Expenses): Appraisal fees; loan application fees; origination charges; credit reports; preparation of loan documents; interest on the notes from date of disbursement to one month prior to dates of first monthly payments; recording fees; copies of easements and restrictions; loan title policy with endorsements required by lender; loan-related inspection fees; photos; amortization schedules; one-half of escrow fee; all prepaid items, including required premiums for flood and hazard insurance, reserve deposits for insurance, ad valorem taxes and special governmental assessments; final compliance inspection; courier fee; repair inspection; underwriting fee; wire transfer fee; expenses incident to any loan; Private

Mortgage Insurance Premium (PMI), VA Loan Funding Fee, or FHA Mortgage Insurance Premium (MIP) as required by the lender; and other expenses payable by Buyer under this contract.

B. If any expense exceeds an amount expressly stated in this contract for such expense to be paid by a party, that party may terminate this contract unless the other party agrees to pay such excess. Buyer may not pay charges and fees expressly prohibited by FHA, VA, Texas Veterans Land Board or other governmental loan program regulations.

13. **PRORATIONS:** Taxes for the current year, interest, maintenance fees, assessments, dues and rents will be prorated through the Closing Date. The tax proration may be calculated taking into consideration any change in exemptions that will affect the current year's taxes. If taxes for the current year vary from the amount prorated at closing, the parties shall adjust the prorations when tax statements for the current year are available. If taxes are not paid at or prior to closing, Buyer shall pay taxes for the current year.

14. **CASUALTY LOSS:** If any part of the Property is damaged or destroyed by fire or other casualty after the effective date of this contract, Seller shall restore the Property to its previous condition as soon as reasonably possible, but in any event by the Closing Date. If Seller fails to do so due to factors beyond Seller's control, Buyer may (a) terminate this contract and the earnest money will be refunded to Buyer (b) extend the time for performance up to 15 days and the Closing Date will be extended as necessary or (c) accept the Property in its damaged condition with an assignment of insurance proceeds, if permitted by Seller's insurance carrier, and receive credit from Seller at closing in the amount of the deductible under the insurance policy. Seller's obligations under this paragraph are independent of any other obligations of Seller under this contract.

15. **DEFAULT:** If Buyer fails to comply with this contract, Buyer will be in default, and Seller may (a) enforce specific performance, seek such other relief as may be provided by law, or both, or (b) terminate this contract and receive the earnest money as liquidated damages, thereby releasing both parties from this contract. If Seller fails to comply with this contract, Seller will be in default and Buyer may (a) enforce specific performance, seek such other relief as may be provided by law, or both, or (b) terminate this contract and receive the earnest money, thereby releasing both parties from this contract.

16. **MEDIATION:** It is the policy of the State of Texas to encourage resolution of disputes through alternative dispute resolution procedures such as mediation. Any dispute between Seller and Buyer related to this contract which is not resolved through informal discussion will be submitted to a mutually acceptable mediation service or provider. The parties to the mediation shall bear the mediation costs equally. This paragraph does not preclude a party from seeking equitable relief from a court of competent jurisdiction.

17. **ATTORNEY'S FEES:** A Buyer, Seller, Listing Broker, Other Broker, or escrow agent who prevails in any legal proceeding related to this contract is entitled to recover reasonable attorney's fees and all costs of such proceeding.

18. **ESCROW:**

A. ESCROW: The escrow agent is not (i) a party to this contract and does not have liability for the performance or nonperformance of any party to this contract, (ii) liable for interest on the earnest money and (iii) liable for the loss of any earnest money caused by the failure of any financial institution in which the earnest money has been deposited unless the financial institution is acting as escrow agent.

B. EXPENSES: At closing, the earnest money must be applied first to any cash down payment, then to Buyer's Expenses and any excess refunded to Buyer. If no closing occurs, escrow agent may: (i) require a written release of liability of the escrow agent from all parties, (ii) require payment of unpaid expenses incurred on behalf of a party, and (iii) only deduct from the earnest money the amount of unpaid expenses incurred on behalf of the party receiving the earnest money.

C. DEMAND: Upon termination of this contract, either party or the escrow agent may send a release of earnest money to each party and the parties shall execute counterparts of the release and deliver same to the escrow agent. If either party fails to execute the release, either party may make a written demand to the escrow agent for the earnest money. If only one party makes written demand for the earnest money, escrow agent shall promptly provide a copy of the demand to the other party. If escrow agent does not receive written objection to the demand from the other party within 15 days, escrow agent may disburse the earnest money to the party making demand reduced by the amount of unpaid expenses incurred on behalf of the party receiving the earnest money and escrow agent may pay the same to the creditors. If escrow agent complies with the provisions of this paragraph, each party hereby releases escrow agent from all adverse claims related to the disbursal of the earnest money.

D. DAMAGES: Any party who wrongfully fails or refuses to sign a release acceptable to the escrow agent within 7 days of receipt of the request will be liable to the other party for (i) damages; (ii) the earnest money; (iii) reasonable attorney's fees; and (iv) all costs of suit.

E. NOTICES: Escrow agent's notices will be effective when sent in compliance with Paragraph 21. Notice of objection to the demand will be deemed effective upon receipt by escrow agent.

19. REPRESENTATIONS: All covenants, representations and warranties in this contract survive closing. If any representation of Seller in this contract is untrue on the Closing Date, Seller will be in default. Unless expressly prohibited by written agreement, Seller may continue to show the Property and receive, negotiate and accept back up offers.

20. FEDERAL TAX REQUIREMENTS: If Seller is a "foreign person," as defined by applicable law, or if Seller fails to deliver an affidavit to Buyer that Seller is not a "foreign person," then Buyer shall withhold from the sales proceeds an amount sufficient to comply with applicable tax law and deliver the same to the Internal Revenue Service together with appropriate tax forms. Internal Revenue Service regulations require filing written reports if currency in excess of specified amounts is received in the transaction.

21. NOTICES: All notices from one party to the other must be in writing and are effective when mailed to, hand-delivered at, or transmitted by fax or electronic transmission as follows:

To Buyer at:		To Seller at:	
	____________________		____________________
Phone:	( ) ____________	Phone:	( ) ____________
Fax:	( ) ____________	Fax:	( ) ____________
E-mail:	____________________	E-mail:	____________________

22. AGREEMENT OF PARTIES: This contract contains the entire agreement of the parties and cannot be changed except by their written agreement. Addenda which are a part of this contract are (Check all applicable boxes):

- ☐ Third Party Financing Addendum
- ☐ Seller Financing Addendum
- ☐ Addendum for Property Subject to Mandatory Membership in a Property Owners Association
- ☐ Buyer's Temporary Residential Lease
- ☐ Loan Assumption Addendum
- ☐ Addendum for Sale of Other Property by Buyer
- ☐ Addendum for Reservation of Oil, Gas and Other Minerals
- ☐ Addendum for "Back-Up" Contract
- ☐ Addendum for Coastal Area Property
- ☐ Environmental Assessment, Threatened or Endangered Species and Wetlands Addendum
- ☐ Seller's Temporary Residential Lease
- ☐ Short Sale Addendum
- ☐ Addendum for Property Located Seaward of the Gulf Intracoastal Waterway
- ☐ Addendum for Seller's Disclosure of Information on Lead-based Paint and Lead-based Paint Hazards as Required by Federal Law
- ☐ Addendum for Property in a Propane Gas System Service Area
- ☐ Other (list): ____________________

Phone: ( ) ________ Fax: ( ) ________

Fax: ( ) ________ E-mail: ________

E-mail: ________

22. AGREEMENT OF PARTIES: This contract contains the entire agreement of the parties and cannot be changed except by their written agreement. Addenda which are a part of this contract are (Check all applicable boxes):

- ❑ Third Party Financing Addendum
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- ❑ Short Sale Addendum
- ❑ Addendum for Property Located Seaward of the Gulf Intracoastal Waterway
- ❑ Addendum for Seller's Disclosure of Information on Lead-based Paint and Lead-based Paint Hazards as Required by Federal Law
- ❑ Addendum for Property in a Propane Gas System Service Area
- ❑ Other (list): ________

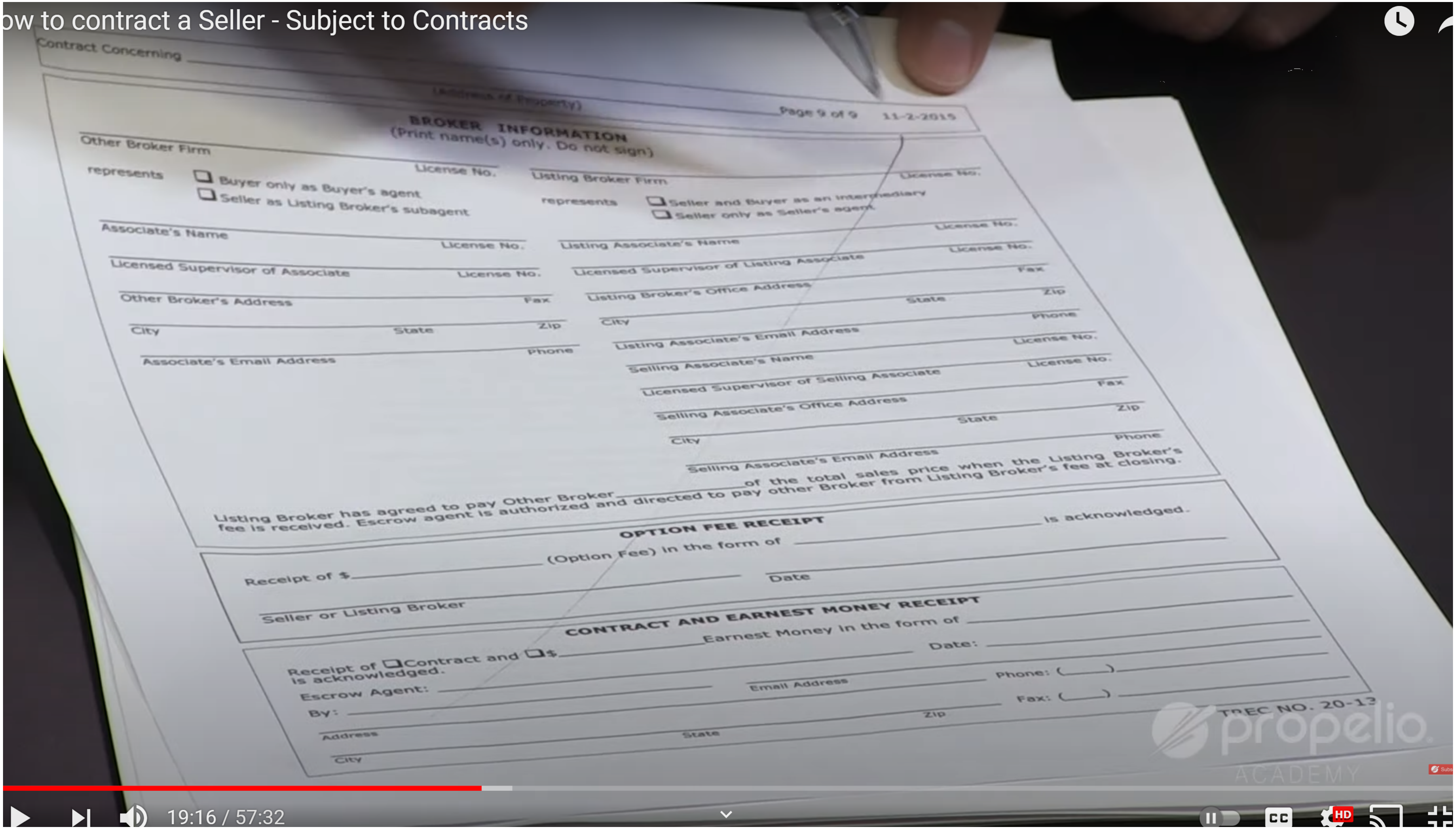
23. TERMINATION OPTION: For nominal consideration, the receipt of which is hereby acknowledged by Seller, and Buyer's agreement to pay Seller $__________ (Option Fee) within 3 days after the effective date of this contract, Seller grants Buyer the unrestricted right to terminate this contract by giving notice of termination to Seller within ________ days after the effective date of this contract (Option Period). Notices under this paragraph must be given by 5:00 p.m. (local time where the Property is located) by the date specified. If no dollar amount is stated as the Option Fee or if Buyer fails to pay the Option Fee to Seller within the time prescribed, this paragraph will not be a part of this contract and Buyer shall not have the unrestricted right to terminate this contract. If Buyer gives notice of termination within the time prescribed, the Option Fee ☐will not be refunded; however, any earnest money will be refunded to Buyer. The Option Fee ☐will ☐will not be credited to the Sales Price at closing. **Time is of the essence for this paragraph and strict compliance with the time for performance is required.**

24. CONSULT AN ATTORNEY BEFORE SIGNING: TREC rules prohibit real estate license holders from giving legal advice. READ THIS CONTRACT CAREFULLY.

Buyer's Attorney is: ______________________	Seller's Attorney is: ______________________
______________________	______________________
Phone: ( ) ______________	Phone: ( ) ______________
Fax: ( ) ______________	Fax: ( ) ______________
E-mail: ______________	E-mail: ______________

EXECUTED the ________ day of ________________, 20______ (EFFECTIVE DATE). (BROKER: FILL IN THE DATE OF FINAL ACCEPTANCE.)

______________________	______________________
Buyer	Seller
______________________	______________________
Buyer	Seller



ow to contract a Seller - Subject to Contracts

Contract Concerning ______________________________ Page 9 of 9 11-2-2015
(Address of Property)

BROKER INFORMATION
(Print name(s) only. Do not sign)

Other Broker Firm ______ License No.
represents ☐ Buyer only as Buyer's agent
☐ Seller as Listing Broker's subagent

Associate's Name ______ License No.

Licensed Supervisor of Associate ______ License No.

Other Broker's Address ______ Fax

City ______ State ______ Zip

Associate's Email Address ______ Phone

Listing Broker Firm ______ License No.
represents ☐ Seller and Buyer as an intermediary
☐ Seller only as Seller's agent

Listing Associate's Name ______ License No.

Licensed Supervisor of Listing Associate ______ License No.

Listing Broker's Office Address ______ Fax

City ______ State ______ Zip

Listing Associate's Email Address ______ Phone

Selling Associate's Name ______ License No.

Licensed Supervisor of Selling Associate ______ License No.

Selling Associate's Office Address ______ Fax

City ______ State ______ Zip

Selling Associate's Email Address ______ Phone

Listing Broker has agreed to pay Other Broker ______ of the total sales price when the Listing Broker's fee is received. Escrow agent is authorized and directed to pay other Broker from Listing Broker's fee at closing.

OPTION FEE RECEIPT

Receipt of $ ______ (Option Fee) in the form of ______ is acknowledged.

Seller or Listing Broker ______ Date

CONTRACT AND EARNEST MONEY RECEIPT

Receipt of ☐Contract and ☐$ ______ Earnest Money in the form of ______ is acknowledged.

Escrow Agent: ______ Date:

By: ______ Email Address ______ Phone: (____)

Address ______ Zip ______ Fax: (____)

City ______ State

TREC NO. 20-13

propelio ACADEMY

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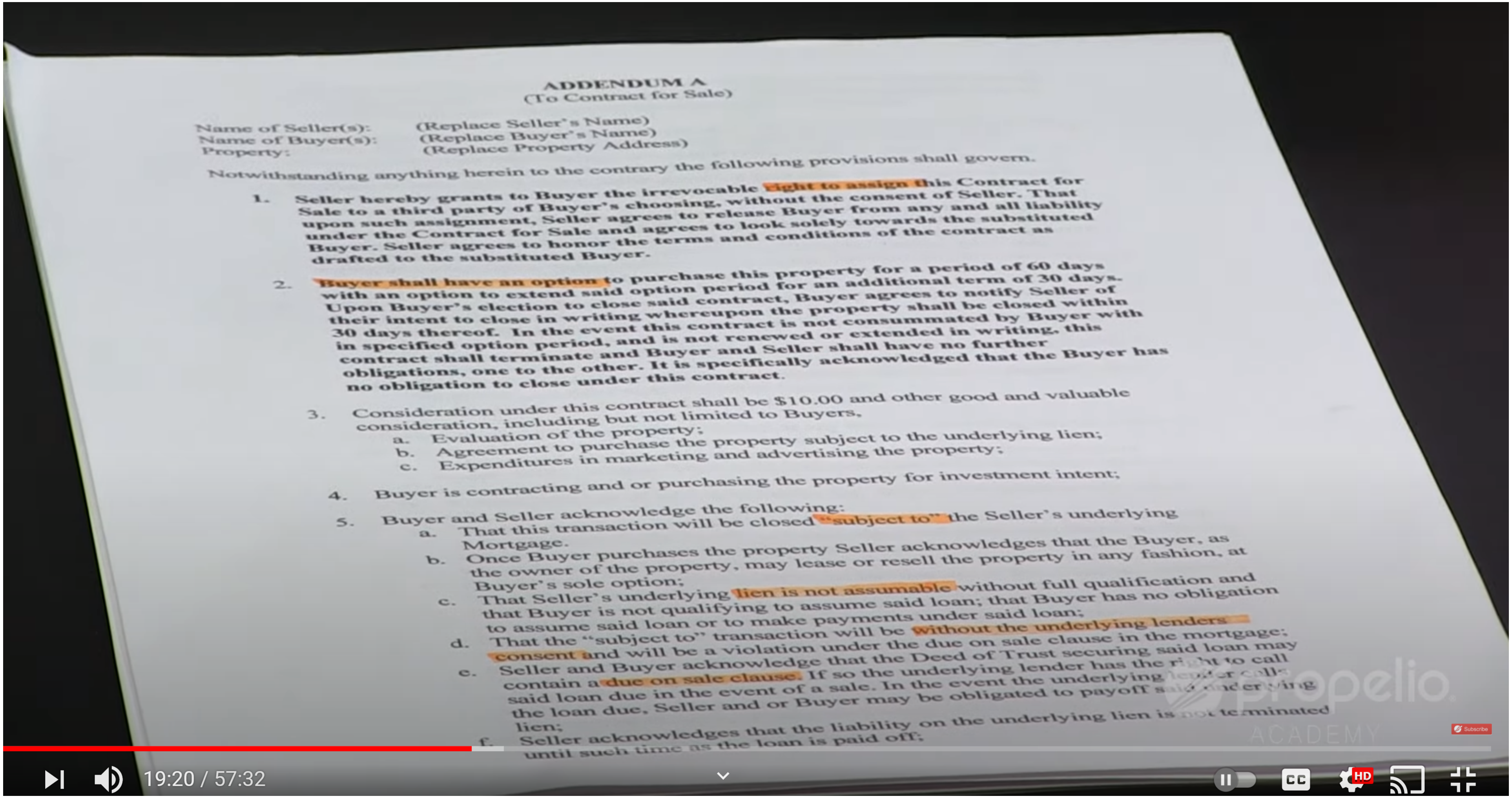


ADDENDUM A
(To Contract for Sale)

Name of Seller(s): (Replace Seller's Name)
Name of Buyer(s): (Replace Buyer's Name)
Property: (Replace Property Address)

Notwithstanding anything herein to the contrary the following provisions shall govern.

1. **Seller hereby grants to Buyer the irrevocable right to assign this Contract for Sale to a third party of Buyer's choosing, without the consent of Seller. That upon such assignment, Seller agrees to release Buyer from any and all liability under the Contract for Sale and agrees to look solely towards the substituted Buyer. Seller agrees to honor the terms and conditions of the contract as drafted to the substituted Buyer.**

2. **Buyer shall have an option to purchase this property for a period of 60 days with an option to extend said option period for an additional term of 30 days. Upon Buyer's election to close said contract, Buyer agrees to notify Seller of their intent to close in writing whereupon the property shall be closed within 30 days thereof. In the event this contract is not consummated by Buyer with in specified option period, and is not renewed or extended in writing, this contract shall terminate and Buyer and Seller shall have no further obligations, one to the other. It is specifically acknowledged that the Buyer has no obligation to close under this contract.**

3. Consideration under this contract shall be $10.00 and other good and valuable consideration, including but not limited to Buyers,
   a. Evaluation of the property;
   b. Agreement to purchase the property subject to the underlying lien;
   c. Expenditures in marketing and advertising the property;

4. Buyer is contracting and or purchasing the property for investment intent;

5. Buyer and Seller acknowledge the following:
   a. That this transaction will be closed "subject to" the Seller's underlying Mortgage.
   b. Once Buyer purchases the property Seller acknowledges that the Buyer, as the owner of the property, may lease or resell the property in any fashion, at Buyer's sole option;
   c. That Seller's underlying lien is not assumable without full qualification and that Buyer is not qualifying to assume said loan; that Buyer has no obligation to assume said loan or to make payments under said loan;
   d. That the "subject to" transaction will be without the underlying lenders consent and will be a violation under the due on sale clause in the mortgage;
   e. Seller and Buyer acknowledge that the Deed of Trust securing said loan may contain a due on sale clause. If so the underlying lender has the right to call said loan due in the event of a sale. In the event the underlying lender calls said underlying the loan due, Seller and or Buyer may be obligated to payoff said underlying lien;
   f. Seller acknowledges that the liability on the underlying lien is not terminated until such time as the loan is paid off;

g. Seller acknowledges that there are risks of damage to the Property from any prospective future occupant thereof, whether an owner occupant or tenant;

h. Seller and Buyer accept and acknowledge these risk factors;

6. It is the Buyer's primary intent upon purchase to treat this property as an investment property. Buyer may lease or sell the property under any mechanism they so choose, as the owner after closing. It is specifically acknowledged that it is not the intent of the Buyer to pay off the underlying loan regardless of the mechanism of purchase or sale; In any event, Seller acknowledges same and recognizes Buyers right to resell or lease the property without further authorization from Seller

7. Seller acknowledges that the Buyer or any shareholder, officer, director or member / manager of Buyer may hold a valid Texas Real Estate Broker or Sales / Agent License, a mortgage broker's license or a law license and is buying the Property for either investment intent or to assign the Contract; that the contract price may not represent market value. Seller acknowledges that Buyer does not represent Seller in any capacity. Seller accepts and acknowledges same;

8. Seller, hereby grants to Buyer the right to perform the following on or with the property prior to sale:
   a. List the property for sale in the Multiple Listing Service (MLS) utilizing a licensed real estate agent;
   b. To place a lock box on the door for showing purposes pursuant to the MLS or otherwise;
   c. That the Seller shall agree, with reasonable notice, to allow Buyer to show the property to third party buyers as necessary;
   d. To place signs in the yard in order to market the property;

9. Seller has the right to cancel this Contract at any time by providing written notice to the Buyer, subject to the following provisions:
   a. In the event Seller elects to cancel said Contract prior to the expiration hereof, Seller will pay Buyer a $3,500 cancellation fee in money order or cashier's check.
   b. Without payment of said cancellation fee, Seller's cancellation will not be effective.
   c. Should Seller fail to pay said cancellation fee, besides any remedy set forth in the Contract, Seller hereby acknowledges and authorizes Buyer to file this Contract any corresponding affidavit in the Deed Records of the County where the property is located.
   d. Should Seller, at any time prior to the termination of this Contract, receive a bona fide offer to sell the property, where it can be verified that the new purchaser Buyer has the ability to purchase and obtain financing for the property, that upon written notification and verification of new Purchaser's financial ability to purchase the property, Buyer will agree to terminate this Contract for Sale whereupon Buyer and Seller shall have no further obligation, one to another, and there shall be no cancellation penalty.
   e. Whether Buyer purchases the property direct or assigns the contract, Buyer will notify seller in writing or by email of Buyer's intent to close. Upon receipt of same, this contract may no longer be terminated by the Seller. Upon receipt of same, closing shall occur within 30 days from the date thereof.

10. The terms and conditions of the contract and mortgage being assumed are as follows: **Chose either Subject to Terms or Wrap Around terms**

Subject to terms

Contract Price: $__________

Down Payment or Fee (if any): $__________

1st Lien:

Current Loan Balance: $__________

Current interest rate: __________

Remaining Term: __________

Original Amortization term: __________

Principal and Interest pmt: $__________

2nd: (if any)

Current Loan Balance: $__________

Current interest rate: __________

Remaining Term: __________

Original Amortization term: __________

Principal and Interest pmt: $__________

Taxes and Insurance Pmt: $__________

Other mortgage pmts.: $__________

Total Monthly payment: $__________

Contract Price Adjustment: In the event the contract price should differ from the loan being assumed:

__X__ If the Contract price is less than the loan amount, the loan amount shall Govern;

__X__ If the Contract price is greater than the loan amount, the loan amount shall govern;

_____ If the Contract price is greater than the loan amount, the Contract shall govern;

Pro-rata / Next month payment Option:

_____ Seller agrees to pay the pro-rata portion of the next monthly payment due after the closing date subject to the date of closing;

_____ Seller agrees to pay the entire next monthly payment due after closing regardless of the date of closing;

_____ Seller shall make no payments regarding the next monthly payment due after closing;

Wrap Around Terms:

Contract Price: $__________

Down Payment or Fee (if any): $__________

1st Lien:

Loan amount: $__________

Interest Rate: __________

Term: __________

Amortization term: ____________
Principal and Interest pmt: $____________

2nd Lien (if any)
Loan amount: $____________%
Interest Rate: ____________
Term: ____________
Amortized: ____________
PI: $____________

Taxes Pmt: $____________
Insurance Pmt: $____________
Total Monthly payment: $____________

Closing costs:
Seller and Buyer agree to pay the following toward the closing costs associated with this transaction.
Seller $____________ or ________%; Buyer $____________ or ________%

11. Buyer and Seller acknowledge that unless otherwise specified in writing Seller will not provide Buyer with an Owner's Title Policy on the Property. Buyer accepts a simple title run or an Abstract of Title in lieu thereof.

12. Buyer and Seller acknowledge that there has been no independent investigation, representation, or assurance whatsoever regarding ad valorem taxes, or at what value said Property may be assessed. The taxes will be pro-rated, if applicable, pursuant to the contract for sale. If taxes are escrowed with any underlying lender, taxes will not be prorated other than within the scope of said escrow.

13. Buyer shall provide, Seller, upon Seller's written request, at closing with a 1 year prepaid insurance policy of Buyer's choice insuring the property in an amount not less than the loan balance or Buyer and Seller may agree to have Buyer added as an additional insured under Seller's insurance policy, provided Seller's insurance company allows same.

14. It is agreed and understood that even though Buyer may execute an Assignment of Contract with a third party assignee, there is no guarantee that said transaction will be consummated and close. Seller hereby acknowledges same and agrees to indemnify and hold Buyer harmless from any such actions.

15. Seller acknowledges that Buyer does not represent Seller in any capacity, including but not limited to, real estate sales agent, property manager or investment, financial or legal advisor.

16. **Consent of Noteholder**: If the noteholder fails to consent to the assumption of the loan or owner financed sale, either Seller or Buyer may terminate this contract by notice to the other party in writing and the earnest money will be refunded to the Buyer.

17. **Seller's Liens:** Unless Seller is released from Liability on any assumed or underlying note, a Vendor's Lien and Deed of Trust to Secure Assumption (performance) or Wrap Around Real Estate Lien Note and Deed of Trust will be required. The Vendor's Lien on any

Amortization term: ______________
Principal and Interest pmt: $______________

2nd Lien (if any) $______________%
Loan amount: ______________
Interest Rate: ______________
Term: ______________
Amortized: $______________
PI:

Taxes Pmt: $______________
Insurance Pmt: $______________
Total Monthly payment: $______________

Closing costs:
Seller and Buyer agree to pay the following toward the closing costs associated with this transaction.
Seller $______________ or ________%; Buyer $______________ or ________%

11. Buyer and Seller acknowledge that unless otherwise specified in writing Seller will not provide Buyer with an Owner's Title Policy on the Property. Buyer accepts a simple title run or an Abstract of Title in lieu thereof.

12. Buyer and Seller acknowledge that there has been no independent investigation, representation, or assurance whatsoever regarding ad valorem taxes, or at what value said Property may be assessed. The taxes will be pro-rated, if applicable, pursuant to the contract for sale. If taxes are escrowed with any underlying lender, taxes will not be prorated other than within the scope of said escrow.

13. Buyer shall provide, Seller, upon Seller's written request, at closing with a 1 year prepaid insurance policy of Buyer's choice insuring the property in an amount not ... the loan balance or Buyer and Seller may agree to have Buyer added as an ... Seller's insurance policy, provided Seller's insurance

underlying lien will automatically be released on delivery of an executed release by Noteholder.

18. **Tax and Insurance Escrow**: If this is an Assumption Transaction, and if Noteholder maintains an escrow account for ad valorem taxes, casualty insurance premiums or mortgage insurance premiums, Seller shall transfer or assign the escrow account to the Buyer without any deficiency.

Buyer ____ will, ____ will not reimburse Seller for the amount in the transferred accounts.

19. **Financial Information:** Buyer agrees that within 7 days from the date of execution hereof to provide Seller with their requested financial information, which may include, but not be limited to the following, application, 2 years tax returns, pay stubs, Verification of Employment / Rent / Mortgage, and bank statement. Upon receipt Seller shall have 7 days to review and either approve, deny or counter the offer based upon information provided. If Seller fails to respond within said 7 days, the Buyer's application and contract shall be deemed accepted and approved. If Buyer should fail to provide Seller the requested financial information, Seller may, at Seller's sole election, accept the contract and or information provided or terminate this contract and retain Buyer's earnest money.

Acknowledged ________ Buyer ________ Buyer

THIS CONTRACT IS A VALID, BINDING LEGAL DOCUMENT. IF YOU DO NOT UNDERSTAND THE EFFECT OF THIS CONTRACT OR ANY PROVISION HEREOF, SEEK COMPETENT LEGAL ADVISE FROM AN ATTORNEY OF YOUR CHOICE.

BUYER

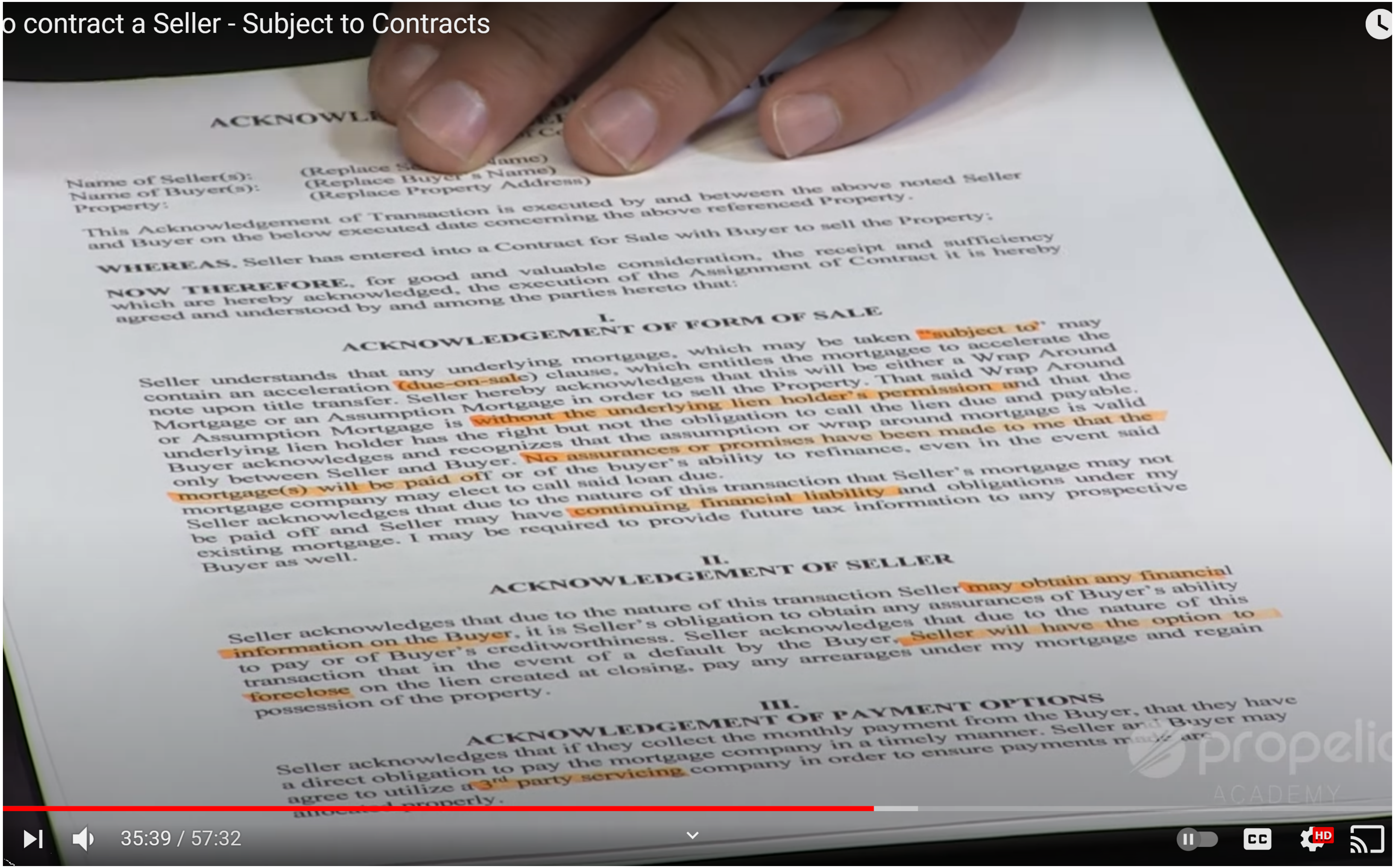
____________________ Date Executed: ____________________

____________________ Date Executed: ____________________

SELLER

____________________ Date Executed: ____________________

____________________ Date Executed: ____________________



ACKNOWLE[illegible]

Name of Seller(s): (Replace S[illegible] Name)
Name of Buyer(s): (Replace Buyer's Name)
Property: (Replace Property Address)

This Acknowledgement of Transaction is executed by and between the above noted Seller and Buyer on the below executed date concerning the above referenced Property.

WHEREAS, Seller has entered into a Contract for Sale with Buyer to sell the Property;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency which are hereby acknowledged, the execution of the Assignment of Contract it is hereby agreed and understood by and among the parties hereto that:

I.
ACKNOWLEDGEMENT OF FORM OF SALE

Seller understands that any underlying mortgage, which may be taken "subject to" may contain an acceleration (due-on-sale) clause, which entitles the mortgagee to accelerate the note upon title transfer. Seller hereby acknowledges that this will be either a Wrap Around Mortgage or an Assumption Mortgage in order to sell the Property. That said Wrap Around or Assumption Mortgage is without the underlying lien holder's permission and that the underlying lien holder has the right but not the obligation to call the lien due and payable. Buyer acknowledges and recognizes that the assumption or wrap around mortgage is valid only between Seller and Buyer. No assurances or promises have been made to me that the mortgage(s) will be paid off or of the buyer's ability to refinance, even in the event said mortgage company may elect to call said loan due. Seller acknowledges that due to the nature of this transaction that Seller's mortgage may not be paid off and Seller may have continuing financial liability and obligations under my existing mortgage. I may be required to provide future tax information to any prospective Buyer as well.

II.
ACKNOWLEDGEMENT OF SELLER

Seller acknowledges that due to the nature of this transaction Seller may obtain any financial information on the Buyer, it is Seller's obligation to obtain any assurances of Buyer's ability to pay or of Buyer's creditworthiness. Seller acknowledges that due to the nature of this transaction that in the event of a default by the Buyer, Seller will have the option to foreclose on the lien created at closing, pay any arrearages under my mortgage and regain possession of the property.

III.
ACKNOWLEDGEMENT OF PAYMENT OPTIONS

Seller acknowledges that if they collect the monthly payment from the Buyer, that they have a direct obligation to pay the mortgage company in a timely manner. Seller and Buyer may agree to utilize a 3rd party servicing company in order to ensure payments m[illegible] are allocated properly.

IV.
ACKNOWLEDGEMENT OF NO TITLE INSURANCE

Seller acknowledges that Title Insurance is available to be purchased at Seller's option. Should the Seller wish to obtain title insurance Seller may contact a closing agent or title company of their choice to discuss and arrange for purchase of same.

V.
ACKNOWLEDGEMENT OF MEDIATION

It is the policy of the State of Texas to encourage resolution of disputes through alternative dispute resolution procedures such as mediation. Any dispute between Seller and Buyer or Seller and Buyer related to this contract, which is not resolved through informal discussion, will be submitted to a mutually acceptable mediation service or provider. The parties to the mediation shall bear the mediation cost equally.

VI.
BEST INTERESTS

Seller acknowledges that due to various market conditions that this transaction is for good and valuable consideration and in my best interest. That Seller has been fully informed of all risk factors involved and acknowledges same.

VII.
NO ORAL AGREEMENTS AND SURVIVABILITY

All agreements between Buyer and Seller are and shall be in writing. There are no verbal agreements between Buyer and Seller. This Acknowledgement of Transaction shall survive the assignment of contract, if any, and subsequent closing and not merge therein.

THE REFERENCED CONTRACT IS A VALID, BINDING LEGAL DOCUMENT. IF YOU DO NOT UNDERSTAND THE EFFECT OF THE CONTRACT OR ANY PROVISION OR ADDENDUM THEREOF, OR ANY PROVISION IN THIS ACKNOWLEDGMENT SEEK COMPETENT LEGAL ADVISE FROM AN ATTORNEY OF YOUR CHOICE.

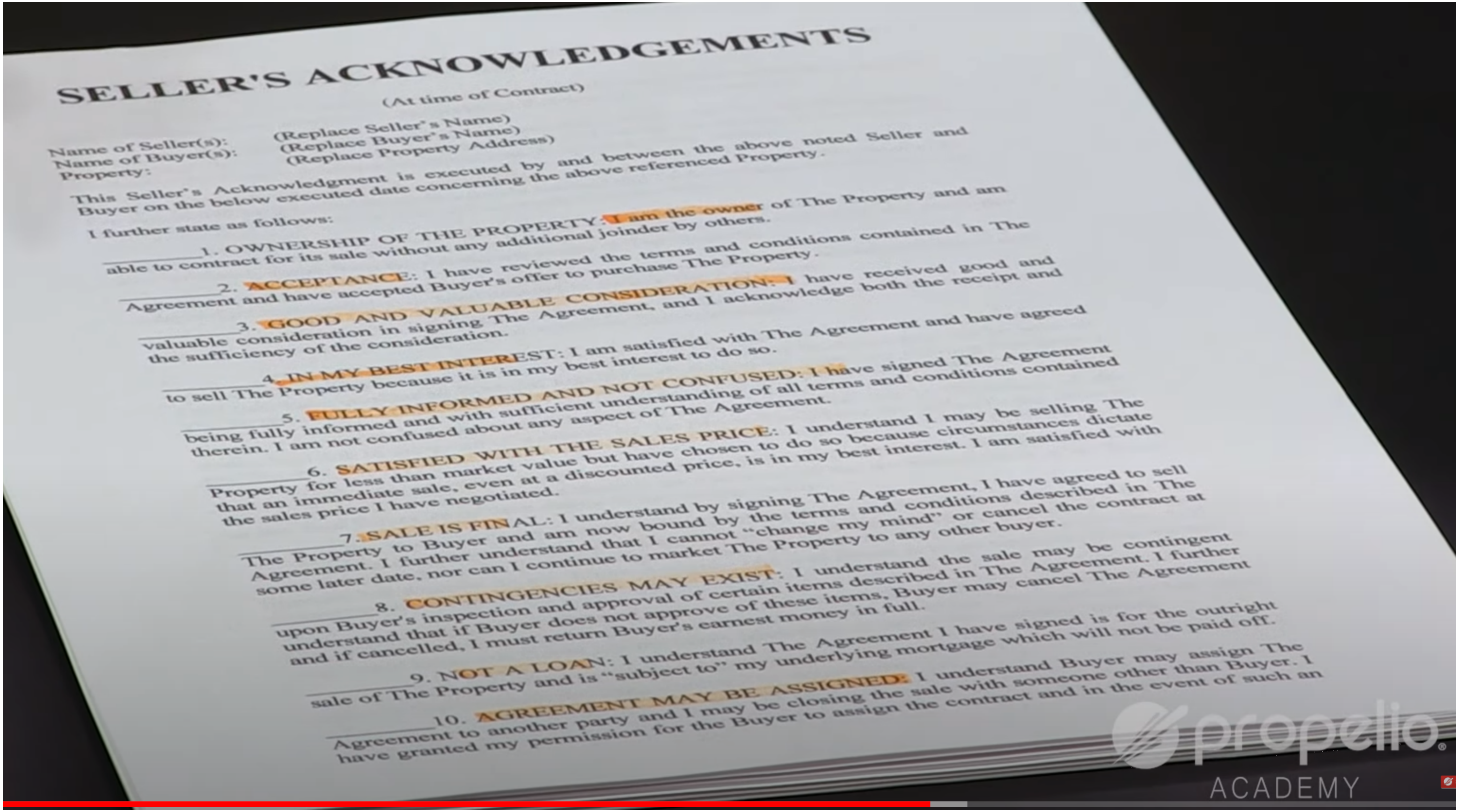
AGREED AND EXECUTED on this the ________day of ________________, 20____.

Seller ______________________________ Date Executed: ______________________

______________________________ Date Executed: ______________________

Buyer ______________________________ Date Executed: ______________________

______________________________ Date Executed: ______________________



SELLER'S ACKNOWLEDGEMENTS

(At time of Contract)

Name of Seller(s): (Replace Seller's Name)
Name of Buyer(s): (Replace Buyer's Name)
Property: (Replace Property Address)

This Seller's Acknowledgment is executed by and between the above noted Seller and Buyer on the below executed date concerning the above referenced Property.

I further state as follows:

__________ 1. OWNERSHIP OF THE PROPERTY: I am the owner of The Property and am able to contract for its sale without any additional joinder by others.

__________ 2. ACCEPTANCE: I have reviewed the terms and conditions contained in The Agreement and have accepted Buyer's offer to purchase The Property.

__________ 3. GOOD AND VALUABLE CONSIDERATION: I have received good and valuable consideration in signing The Agreement, and I acknowledge both the receipt and the sufficiency of the consideration.

__________ 4. IN MY BEST INTEREST: I am satisfied with The Agreement and have agreed to sell The Property because it is in my best interest to do so.

__________ 5. FULLY INFORMED AND NOT CONFUSED: I have signed The Agreement being fully informed and with sufficient understanding of all terms and conditions contained therein. I am not confused about any aspect of The Agreement.

__________ 6. SATISFIED WITH THE SALES PRICE: I understand I may be selling The Property for less than market value but have chosen to do so because circumstances dictate that an immediate sale, even at a discounted price, is in my best interest. I am satisfied with the sales price I have negotiated.

__________ 7. SALE IS FINAL: I understand by signing The Agreement, I have agreed to sell The Property to Buyer and am now bound by the terms and conditions described in The Agreement. I further understand that I cannot "change my mind" or cancel the contract at some later date, nor can I continue to market The Property to any other buyer.

__________ 8. CONTINGENCIES MAY EXIST: I understand the sale may be contingent upon Buyer's inspection and approval of certain items described in The Agreement. I further understand that if Buyer does not approve of these items, Buyer may cancel The Agreement and if cancelled, I must return Buyer's earnest money in full.

__________ 9. NOT A LOAN: I understand The Agreement I have signed is for the outright sale of The Property and is "subject to" my underlying mortgage which will not be paid off.

__________ 10. AGREEMENT MAY BE ASSIGNED: I understand Buyer may assign The Agreement to another party and I may be closing the sale with someone other than Buyer. I have granted my permission for the Buyer to assign the contract and in the event of such an

assignment, have agreed to release the Buyer from liability under the Contract and have agreed to look solely to the Assignee as the new buyer.

______ 11. CLOSING: I understand this transaction will close at the office of an escrow agent or at a law office, however, I acknowledge that they do not represent me.

______ 12. CLOSING DOCUMENTS: I understand there will be additional closing documents to sign and upon receipt, agree to sign and deliver the closing documents either into Escrow or directly to Buyer, as Buyer may direct, in a timely manner.

______ 13. COPIES OF THE PAPERWORK: I understand that copies of the paperwork I've signed will be provided to me in a timely manner and I acknowledge that circumstances dictate that copies may not be immediately made available to me.

______ 14. BUYER ENTITLED TO MAKE A PROFIT: I understand Buyer may resell the Property and may realize a profit in doing so. I agree Buyer is entitled to any profit that may ultimately result from the subsequent resale of The Property.

______ 15. LEGAL COUNSEL ADVISED: I acknowledge Buyer has advised me to seek independent representation or legal counsel to review The Agreement.

______ 16. FINANCIAL REVIEW ADVISED: I acknowledge Buyer has advised me to seek an independent financial advisor to review The Agreement.

______ 17. CONTINUING LIABILITY AND FINANCIAL OBLIGATION: I acknowledge that due to the nature of this transaction that my mortgage may not be paid off and I may have continuing financial liability and obligations under my existing mortgage. I may be required to provide future tax information to any prospective Buyer as well.

______ 18. OPTION TO FORECLOSE: I acknowledge that due to the nature of this transaction that in the event of a default by the Buyer, I will have the option to foreclose on my lien, pay any arrearages under my mortgage and regain possession of the property.

______ 19. CREDITWORTHINESS OF BUYER/ASSIGNEE: I acknowledge that due to the nature of this transaction that there is no guarantee of the creditworthiness of the Buyer or any final Buyer, or of their ability to pay or pay timely.

______ 20. FINANCIAL INFORMATION OF BUYER/ASSIGNEE: I acknowledge that due to the nature of this transaction I may not obtain any financial information on the Buyer or final Buyer. I further acknowledge that the Buyer has no obligation to provide me with financial information on any future Assignee and that Buyer is in no way providing me any assurances of Assignee's ability to pay.

______ 20. FAIRLY NEGOTIATED: I understand Buyer has negotiated on his own behalf and likewise, I have negotiated on mine. I acknowledge The Agreement has been negotiated fairly and Buyer has not taken advantage of me or my current situation.

______ 21. NO PRECLUDING AILMENTS: I have no physical, mental or emotional ailments that preclude me from signing The Agreement.

________22. NOT UNDER THE INFLUENCE: I am not now under the influence of alcohol or any other mind-altering substance, nor am I taking medication that would cloud my judgment or make me unable to think clearly.

________23. NO OTHER PROMISES: I have not been promised anything other than what is described in The Agreement. There are no unresolved issues, no outside agreements, nor are there other terms not disclosed in The Agreement.

________24. NOT UNDER DURESS: I am not under duress and have signed The Agreement of my own free will, without any undue financial pressure. Buyer has in no way pressured me into signing The Agreement.

________25. FULLY SATISFIED WITH AGREEMENT: I am fully satisfied with all terms and conditions contained in The Agreement.

THE REFERENCED CONTRACT IS A VALID, BINDING LEGAL DOCUMENT. IF YOU DO NOT UNDERSTAND THE EFFECT OF THE CONTRACT OR ANY PROVISION OR ADDENDUM THEREOF, OR ANY PROVISION IN THIS ACKNOWLEDGMENT SEEK COMPETENT LEGAL ADVISE FROM AN ATTORNEY OF YOUR CHOICE.

AGREED AND EXECUTED on this the _______day of ______________, 20____.

Seller Date Executed: ____________________

____________________ Date Executed: ____________________

____

ACKNOWLEDGEMENT OF MORTGAGE PROCESSING

(At time of Contract-Seller)

Name of Seller(s): (Replace Seller's Name)
Name of Buyer(s): (Replace Buyer's Name)
Property: (Replace Property Address)

This Acknowledgement of Mortgage Processing is executed pursuant to the Contract for Sale between Buyer and Seller for the above referenced property

1. Seller acknowledges that they have the option to perform a full mortgage process on the buyer by an independent Registered Mortgage Loan Originator;.
2. In the event Seller should elect to perform mortgage processing on the Buyer the Seller should inquire of their real estate professional or closing agent for recommendations.

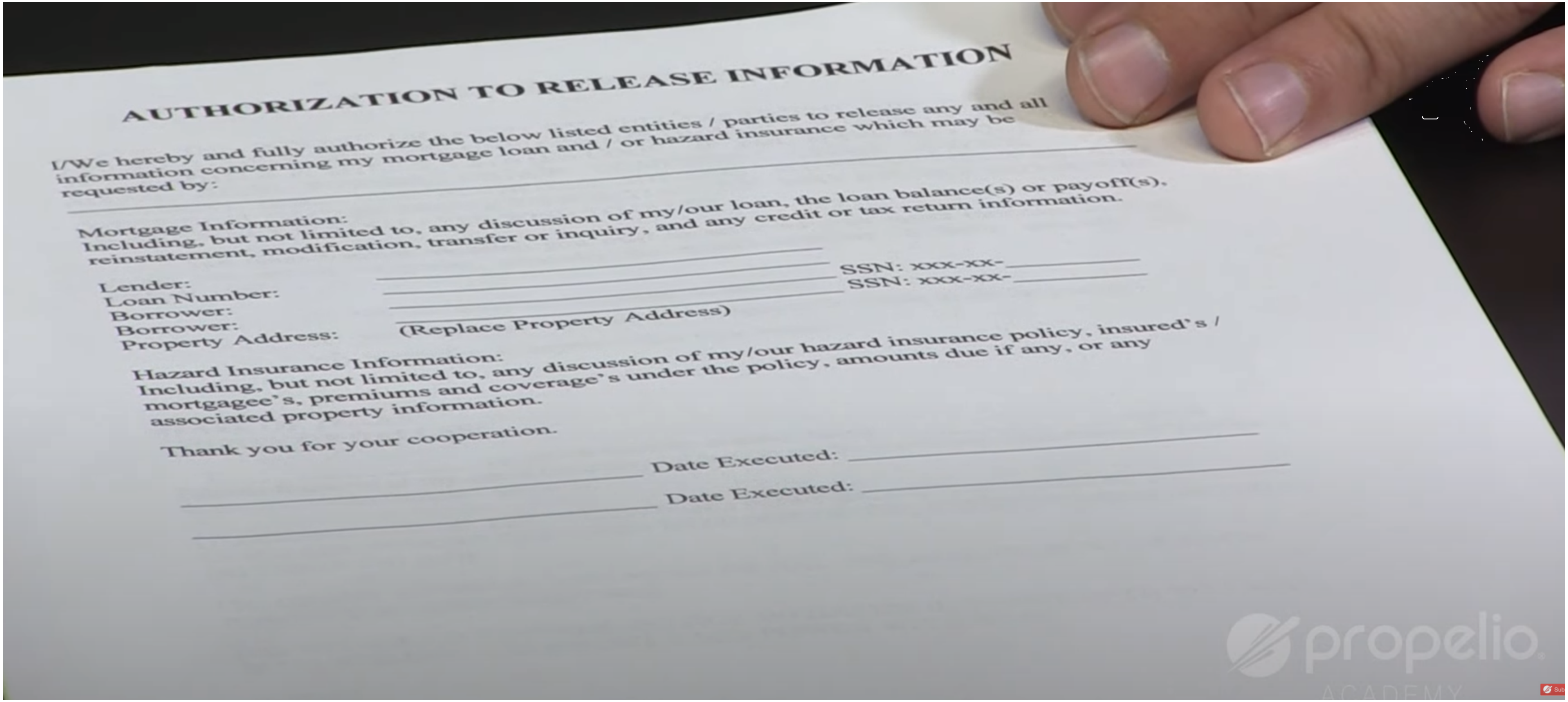
THE REFERENCED CONTRACT IS A VALID, BINDING LEGAL DOCUMENT. IF YOU DO NOT UNDERSTAND THE EFFECT OF THE CONTRACT OR ANY PROVISION OR ADDENDUM THEREOF, OR ANY PROVISION IN THIS ACKNOWLEDGMENT SEEK COMPETENT LEGAL ADVISE FROM AN ATTORNEY OF YOUR CHOICE.

AGREED AND EXECUTED on this the ______ day of ______________, 20____.

Seller

_______________________ Date Executed: _______________________

_______________________ Date Executed: _______________________



AUTHORIZATION TO RELEASE INFORMATION

I/We hereby and fully authorize the below listed entities / parties to release any and all information concerning my mortgage loan and / or hazard insurance which may be requested by: ______________________________

Mortgage Information:
Including, but not limited to, any discussion of my/our loan, the loan balance(s) or payoff(s), reinstatement, modification, transfer or inquiry, and any credit or tax return information.

Lender: ______________________________
Loan Number: ______________________________
Borrower: ______________________________ SSN: xxx-xx-__________
Borrower: ______________________________ SSN: xxx-xx-__________
Property Address: (Replace Property Address)

Hazard Insurance Information:
Including, but not limited to, any discussion of my/our hazard insurance policy, insured's / mortgagee's, premiums and coverage's under the policy, amounts due if any, or any associated property information.

Thank you for your cooperation.

______________________________ Date Executed: ______________________________

______________________________ Date Executed: ______________________________

to contract a Seller - Subject to Contracts

ACKNOWLEDGEMENT OF EVIDENCE OF ELECTION OF TYPE OF TITLE ASSURANCE

(At time of Contract)

Name of Seller(s): (Replace Seller's Name)
Name of Buyer(s): (Replace Buyer's Name)
Property: (Replace Property Address)

This Acknowledgement of Evidence of Election of Type of Title Assurance is e[...] Seller on the below executed date concerning the above referenced Property.

WHEREAS, Seller has executed a Contract for Sale for the sale of the above Property and will be acting as the lender in the transaction;

WHEREAS, Seller has the option to elect to purchase mortgagee title insurance insuring their mortgage;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency which are hereby acknowledged, the execution of the Assignment of Contract it is hereby agreed and understood Seller that:

I. ACKNOWLEDGEMENT of AVAILABLE TITLE SEARCHES or TITLE INSURANCE

Buyer acknowledges that they may obtain one of the following types of Title searches or Title Insurance. A brief description and estimated pricing has been provided for each type of search or insurance provided. Buyer, if Buyer is unsure of which form to select, Buyer should contact their real estate professional or legal counsel for proper determination.

Title Run-Name search: Cost: $100-200
Quick look at what has been recorded on the property after the original loan being assumed was recorded.
- May not disclose all recorded liens
- May not pick up bankruptcy filings
- No Property tax search included (available for a fee)
- No insurance offered

Abstract of Title: Cost: $250-350
More thorough title examination after the original loan being
- May not disclose all recorded liens
- Includes bankruptcy search
- No Property tax search included (available for a fee)
- No insurance offered

Title Insurance:
Full title examination by the title company with associated insurance insuring the title on the property.

Cost:
Title insurance is based upon the dollar amount of the loan and will include property tax searches, tax lien and other judgment searches. Other fees will be associated with the

ACKNOWLEDGEMENT OF EVIDENCE OF ELECTION OF TYPE OF TITLE ASSURANCE

(At time of Contract)

Seller(s): (Replace Seller's Name)
Buyer(s): (Replace Buyer's Name)
Property: (Replace Property Address)

This Acknowledgement of Evidence of Election of Type of Title Assurance is executed by Seller on the below executed date concerning the above referenced Property.

WHEREAS, Seller has executed a Contract for Sale for the sale of the above Property and will be acting as the lender in the transaction;

WHEREAS, Seller has the option to elect to purchase mortgagee title insurance insuring their mortgage;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency which are hereby acknowledged, the execution of the Assignment of Contract it is hereby agreed and understood Seller that:

I.
ACKNOWLEDGEMENT of AVAILABLE TITLE SEARCHES or TITLE INSURANCE

Buyer acknowledges that they may obtain one of the following types of Title searches or Title Insurance. A brief description and estimated pricing has been provided for each type of search or insurance provided. Buyer, if Buyer is unsure of which form to select, Buyer should contact their real estate professional or legal counsel for proper determination.

Title Run-Name search:
Cost: $100-200

Quick look at what has been recorded on the property after the original loan being assumed was recorded.
- May not disclose all recorded liens
- May not pick up bankruptcy filings
- No Property tax search included (available for a fee)
- No insurance offered

Abstract of Title:
Cost: $250-350

More thorough title examination after the original loan being
- May not disclose all recorded liens
- Includes bankruptcy search
- No Property tax search included (available for a fee)
- No insurance offered

Title Insurance:

Full title examination by the title company with associated insurance insuring the title on the property.

Cost:

Title insurance is based upon the dollar amount of the loan and will include property tax searches, tax lien and other judgment searches. Other fees will be associated with the

closing. Example: $100k Loan- approx closing costs will be $1500

II.
ELECTION of TITLE SEARCHES or TITLE INSURANCE

I hereby acknowledge that I am fully informed of my title search or insurance options. As such I have initialed next to my preferred election.

Initial only one (1)

__________ Title Run

__________ Abstract of Title

__________ Title Insurance

THE REFERENCED CONTRACT IS A VALID, BINDING LEGAL DOCUMENT. IF YOU DO NOT UNDERSTAND THE EFFECT OF THE CONTRACT OR ANY PROVISION OR ADDENDUM THEREOF, OR ANY PROVISION IN THIS ACKNOWLEDGMENT SEEK COMPETENT LEGAL ADVISE FROM AN ATTORNEY OF YOUR CHOICE.

AGREED AND EXECUTED on this the _______day of _______________, 20____.

Buyer

______________________________ Date Executed: ________________________

______________________________ Date Executed: ________________________

NOTICE: THE POWERS GRANTED BY THIS DOCUMENT ARE BROAD AND SWEEPING. THEY ARE EXPLAINED IN THE DURABLE POWER OF ATTORNEY ACT, SUBTITLE P, TITLE 2, ESTATES CODE. IF YOU HAVE ANY QUESTIONS ABOUT THESE POWERS, OBTAIN COMPETENT LEGAL ADVICE. THIS DOCUMENT DOES NOT AUTHORIZE ANYONE TO MAKE MEDICAL AND OTHER HEALTH-CARE DECISIONS FOR YOU. YOU MAY REVOKE THIS POWER OF ATTORNEY IF YOU LATER WISH TO DO SO.

You should select someone you trust to serve as your agent (attorney in fact). Unless you specify otherwise, generally the agent's (attorney in fact's) authority will continue until:

(1) you die or revoke the power of attorney;

(2) your agent (attorney in fact) resigns or is unable to act for you; or

(3) a guardian is appointed for your estate.

STATE OF TEXAS
COUNTY OF DALLAS:

I, ____________________, my social security number being ____________________ appoint Fabiola Ramirez as my agent (attorney-in-fact) to act for me in any lawful way with respect to the following initialed subjects:

[TO GRANT ALL OF THE FOLLOWING POWERS, INITIAL THE LINE IN FRONT OF (N) AND IGNORE THE LINES IN FRONT OF THE OTHER POWERS LISTED IN (A) THROUGH (M)]

[TO GRANT A POWER, YOU MUST INITIAL THE LINE IN FRONT OF EACH POWER YOU ARE GRANTING]

[TO WITHHOLD A POWER, DO NOT INITIALIZE IN FRONT OF IT. YOU MAY, BUT NEED NOT, CROSS OUT EACH POWER WITHHELD]

INITIAL

X______ (A) real property transactions;

X______ (B) tangible personal property transactions;

______ (C) stock and bond transactions;

______ (D) commodity and option transactions;

X______ (E) banking and other financial institutions transactions;

____ (F) business operating transactions;

X____ (G) insurance and annuity transactions;

____ (H) estate, trust and other beneficiary transactions;

____ (I) claims and litigation;

____ (J) personal and family maintenance;

____ (K) benefits form social security, Medicare, Medicaid, or other governmental programs or civil or military service;

____ (L) retirement plan transactions;

____ (M) tax matters;

____ (N) ALL OF THE POWERS LISTED IN (A) THROUGH (M). YOU NEED NOT INITIAL ANY OTHER LINES IF YOU INITIAL LINE (N).

SPECIAL INSTRUCTIONS

Special instructions applicable to gifts (initial in front of the following sentence to have it apply):

X____ I grant my agent (attorney in fact) the power to apply my property to make gifts outright to or for the benefit of a person, including by the exercise of a presently exercisable general power of appointment held by me, except that the amount of a gift to an individual may not exceed the amount of annual exclusions allowed from the federal gift tax for the calendar year of the gift.

ON THE FOLLOWING LINES YOU MAY GIVE SPECIAL INSTRUCTIONS LIMITING OR EXTENDING THE POWERS GRANTED TO YOUR AGENT.

This power of attorney is specifically limited to communications and the execution of documents concerning the real property located at (Replace Property Address).

UNLESS YOU DIRECT OTHERWISE ABOVE, THIS POWER OF ATTORNEY IS EFFECTIVE IMMEDIATELY AND WILL CONTINUE UNTIL IT IS REVOKED.

CHOOSE ONE OF THE FOLLOWING ALTERNATIVES BY CROSSING OUT THE ALTERNATIVES NOT CHOSEN:

(A) This power of attorney is not affected by my subsequent disability or incapacity.

(B) This power of attorney becomes effective upon my disability or incapacity.

YOU SHOULD CHOOSE ALTERNATIVE (A) IF THIS POWER OF ATTORNE. TO BECOME EFFECTIVE UPON THE DATE IT IS EXECUTED.

IF NEITHER (A) NOR (B) IS CROSSED OUT, IT WILL BE ASSUMED THAT YOU CHOSE ALTERNATIVE (A).

If Alternative (B) is chosen and a definition of my disability or incapacity is not contained in this power of attorney, I shall be considered disabled or incapacitated for purposes of this power of attorney if a physician certifies in writing at a date later than the date this power of attorney is executed that, based on the physician's medical examination of me, I am mentally incapable of managing my financial affairs. I authorize the physician who examines me for this purpose to disclose my physical or mental condition to another person for purposes of this power of attorney. A third party who accepts this power of attorney is fully protected from any action taken under this power of attorney that is based on the determination made by a physician of my disability or incapacity.

I agree that any third party who receives a copy of this document must act under it. Revocation of the durable power of attorney is not effective as to a third party until the third party receives actual notice of the revocation. I agree to indemnify the third party for any claims that arise against the third party because of reliance on this power of attorney.

If any agent named by me dies, becomes legally disabled, resigns, or refuses to act, I name the following (each to act alone and successively, in the order named) as successor(s) to that agent: None

SIGNED this ____________ day of ______________, 20____.

____

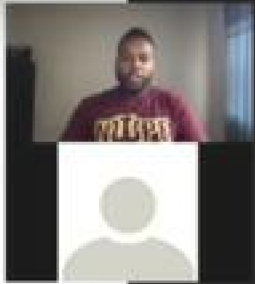
STATE OF TEXAS
COUNTY OF DALLAS

This document was acknowledged before me on ______________, 20____, by ____________ ________________________________.

____

NOTARY PUBLIC IN AND FOR
THE STATE OF TEXAS

My commission expires: ______________



OFFER TO PURCHASE AND CONTRACT

NOTICE: This is a legal and binding Agreement for the purchase and sale of property. The parties hereto are urged to discuss the purchase or sale with an attorney BEFORE YOU SIGN.

1. The following agreement (hereinafter to as the "Agreement") to buy and sell real property is made between:

SELLER: Billy Bob
hereinafter referred to as "Seller"

ADDRESS OF SELLER: 123 Main St Houston, TX
Town/City State ZIP

BUYER: Koach Joe and/or assigns
hereinafter referred to as "Buyer"

ADDRESS OF BUYER: List Company Address Not Personnel
Town/City State ZIP

Seller agrees to sell and Buyer agrees to buy for the purchase price and upon the terms and conditions stated herein the real property with all buildings and other improvements thereon and all appurtenances thereto, in the same condition as they were on the date of Buyer's signature, reasonable wear and tear excepted.

2. REAL PROPERTY TO BE PURCHASED:

a) Street Address: 231 Paul Ave

b) City/Town: Houston STATE TX ZIP

3. INCLUDED IN SALE PRICE: The Real Property shall include all items permanently attached to the property on the date Buyer signed this Agreement and: all screens, storm windows, TV antenna, awnings, security, fire and smoke alarms, garage door openers with controls, venetian blinds, curtain/drapery rods, wall to wall carpet, plumbing and heating fixtures (except portable heaters or rented water heaters), light fixtures, shrubbery and plants. Unless mentioned below, all personal property is excluded.

ADDITIONAL PERSONAL PROPERTY, if any, to be included:

There is no leased personal property except:

4. PURCHASE PRICE $ Mortgage Payoff payable as follows:

a) By initial Deposit submitted herewith receipt of which is hereby acknowledged $ 10.00

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the real property with all buildings and other improvements thereon and all appurtenances thereto, in the same condi-

2. REAL PROPERTY TO BE PURCHASED:

a) Street Address: 231 Paul Ave

b) City/Town: Houston STATE TX ZIP ____________

3. INCLUDED IN SALE PRICE: The Real Property shall include all items permanently attached to the property on the date Buyer signed this Agreement and: all screens, storm windows, TV antenna, awnings, security, fire and smoke alarms, garage door openers with controls, venetian blinds, curtain/drapery rods, wall to wall carpet, plumbing and heating fixtures (except portable heaters or rented water heaters), light fixtures, shrubbery and plants. Unless mentioned below, all personal property is excluded.

ADDITIONAL PERSONAL PROPERTY, if any, to be included: ____________

There is no leased personal property except: ____________

4. PURCHASE PRICE $ Mortgage Payoff payable as follows:

a) By initial Deposit submitted herewith receipt of which is hereby acknowledged $ 10.00

b) By additional Deposit due upon Sellers Acceptance $ ____________

c) Balance due at Closing $ Mortgage Payoff

d) Subject to 1st deed of trust balance: Lender ____________ Loan No. ____________ $ ____________

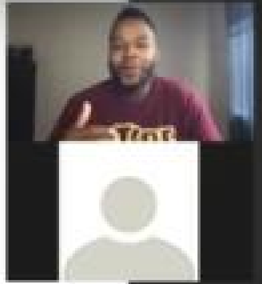
Interest Rate ______% fixed rate(__); adjustable rate(__); ________ / month including principal (__) and interest (__) and escrow (__): including taxes (__) and insurance (__)

d) Subject to 2nd deed of trust balance: Lender ____________ Loan No. ____________ $ ____________

Interest Rate ______% fixed rate(__); adjustable rate(__); ________ / month including principal (__) and interest (__) and escrow (__): including taxes (__) and insurance (__)

TOTAL PRICE TO BE PAID (Must equal "Purchase Price") $ Mortgage Payoff

****NOTE: The purchase price may be adjusted by Buyer, in Buyer's discretion, if the actual loan balances for the first mortgage and second mortgage (if applicable) are different from the amount disclosed by Seller.****



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shall be made at the stated times. The Earnest Money Deposit shall be held in escrow and made payable to the Listing Broker or the escrow agent: $10.00 ______________. All checks are subject to collection and failure of collection shall constitute a default. In the event any deposit funds payable pursuant to this Agreement are not paid by Buyer, Seller may give written notice of such failure to Buyer. If such notice is given and a period of three (3) days pass without Buyer paying the deposit owed, Seller may declare Buyer in default and shall have the remedies set forth in Paragraph 14.

6. ESCROW ACCOUNT: Seller shall assign to Buyer, at no cost to Buyer, Seller's escrow account and property hazard insurance policy, and/or any refunds which lender may issue, in line of all taxes, association fees, monthly hazard insurance premiums, and monthly mortgage insurance premiums as of the date of closing. Seller shall bring any escrow shortage current at closing.

7. CONDITION OF PREMISES: Buyer represents that Buyer has examined the Property and is satisfied with the physical condition subject to the Inspection Contingency if applicable. Neither Seller nor any representative of the Seller has made any representation or promise other than those expressly stated herein which Buyer has relied upon in making this Agreement.

8. INSPECTION CONTINGENCY:
a) Inspections shall be completed and results reported to Seller on or before 5:00 P.M. on ______________ (Inspection Period).
b)Seller agrees to permit Buyer's designees to inspect the Property during the Inspection Period. If Buyer is not satisfied with the physical condition of the Property, and so notifies Seller in writing prior to the expiration of the Inspection Period, then Buyer may, at Buyer's option: (1) terminate this Agreement or (2) give Seller the option to correct the conditions that are unsatisfactory to the Buyer. Should Buyer elect to terminate this Agreement or Seller is unwilling to correct any unsatisfactory conditions, this Agreement shall be null and void and the Earnest Money Deposit shall be returned immediately to Buyer and neither Buyer nor Seller shall have any claims against each other under the terms of this Agreement. If Buyer fails to notify Seller as provided herein, this Inspection Contingency shall be deemed satisfied and this Agreement shall continue in full force and effect.
c) If initiated, Buyer does NOT choose to have any inspections performed and WAIVES any rights to object to any defects in the Property that would have been disclosed by a full and complete inspections except as provided under Paragraph 12 hereinbelow. ______ BUYER'S INITIALS

9. STATEMENT REGARDING LEAD BASED PAINT: The parties acknowledge that dwelling units constructed prior to 1978 are likely to contain lead-based paint which could create a health hazard. In the event that the real property which is the subject of this Agreement consists of or contains a residential unit built prior to 1978, the parties agree that each party has received, reviewed, signed and annexed hereto a completed Disclosure and acknowledgment Form re: Lead-Based Paint as required by federal HUD/EPA disclosure regulations.

10. OCCUPANCY, POSSESSION, CLOSING DATE ______________
Unless otherwise stated herein, Buyer shall receive exclusive possession and occupancy with keys on Closing Date. The Property shall be maintained by Seller until time of Closing and shall be transferred in broom clean condition, free of debris. Buyer shall have the right to a walk-through inspection of the Property within forty-eight (48) hours prior to the Closing Date. Closing shall be held at the attorney's office of Buyer's choosing or at such place as designated by Buyer's mortgage lender.

11. WARRANTY DEED: Seller agrees to convey fee simple title of the Property to Buyer by a good and sufficient Warranty Deed subject to the deed(s) of trust listed in Paragraph 4 hereinabove and to any and all provisions of any ordinance, municipal regulation, public or private law, restrictions and easements as appear of record, if any, provided they do not affect marketability of title, current real estate taxes, water and sewer charges, and current water and sewer assessment balance, if any, except in those cases where a fiduciary's Deed or other form of court ordered deed may be required to pass title. Seller warrants that Seller has no notice of any outstanding violations from any town, city or state agency relating to the Property.

43:13

Scroll for details

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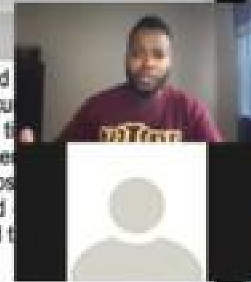

12. MARKETABLE TITLE: Notwithstanding the deed(s) of trust Buyer is taking title subject to, title to be conveyed Seller shall be marketable and insurable without exception for mechanics liens and free of any other liens, encu brances or defects. Seller further agrees to execute such documents as may be reasonably required by Buyer's t insurance company, attorney or mortgage lender. Should Seller be unable to convey marketable title as defined he in, Buyer may accept such title as Seller can convey, or may reject the unmarketable title, receive back all Depos back, and declare this Agreement null and void. Upon such rejection and repayment to Buyer of all sums paid account hereof, together with the reasonable fees for the examination of title, this Agreement shall terminate and t parties hereto shall be released from all further claims against each other.

13. ADJUSTMENTS: Any accrued loan interest shall be prorated to the date of closing. In the absence of an escrow account, taxes shall be prorated as the date of closing. All other adjustments, including but not limited to homeowners association fees, fuel oil, water and sewer usage, interest on sewer or water assessments, utilities, rent, if any, and issues regarding funds at closing and unavailability of releases at closing and like matters shall be adjusted pro rata as of the Closing Date. Rent security deposits, if any, shall be credited to Buyer by Seller on the Closing Date and shall include, any interest accrued to the tenant.

14. DEFAULT: If Buyer fails to comply with any terms of this Agreement by the time set forth for compliance and Seller is not in default, Seller shall be entitled to the Earnest Money Deposit as liquidated damages as its sole remedy of any type to which Seller is entitled and both parties shall be relieved of any further liability under this Agreement. If Seller fails to comply with any terms of this Agreement by the time set forth for compliance and Buyer is not in default, Buyer shall be entitled to a return of the Earnest Money Deposit as well as reasonable costs actually incurred by Buyer in connection with Buyer's inspection of the Property without affecting any other remedies. Seller understands and acknowledges that Buyer has the right to enforce this Agreement through legal action. If legal action is brought to enforce any provision of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees.

15. RISK OF LOSS, DAMAGE: All risk of loss or damage to said property by fire, theft or other casualty until delivery of Deed shall be upon the Seller. In the event of loss or damage independently appraised at more than Five Thousand Dollars ($5,000.00), Buyer shall have the option to (1) receive any insurance payment on account of said damage and take title to the Property or (2) rescind this Agreement, receive back the Earnest Money Deposit and all rights and obligations of the parties under this Agreement shall terminate.

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15. RISK OF LOSS, DAMAGE: All risk of loss or damage to said property by fire, theft or other casualty until delive of Deed shall be upon the Seller. In the event of loss or damage independently appraised at more than Five Tho sand Dollars ($5,000.00), Buyer shall have the option to (1) receive any insurance payment on account of said da age and take title to the Property or (2) rescind this Agreement, receive back the Earnest Money Deposit and rights and obligations of the parties under this Agreement shall terminate.

CREATIVE FINANCING

16. ASSIGNMENT: This Agreement may be assigned by Buyer without the consent of Seller. Such assignee sh replace the Earnest Money Deposit held in escrow with the Listing Broker or escrow agent. Once the Earnest Mon Deposit has been replaced by the assignee, the Listing Broker or escrow agent shall release the Earnest Money Deposit paid by Buyer to Buyer. If assigned, then this Agreement shall be binding on the assignee and assignee's heirs and successors.

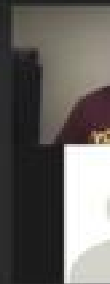
17. LISTING BROKER: N/A PH#: N/A

Dual Agent—If the Listing Agent is acting as a Dual Agent, consent for dual agency form shall be attached to this Agreement.

18. MEMORANDUM OF CONTRACT: Buyer may file, at Buyer's option, a Memorandum of Contract at the Register of Deeds for the county in which the Property is located.

19. PROPERTY CONDITION REPORT: Seller and Buyer acknowledge that if a written residential property condition report is required by statute and Seller has not provided Buyer with the required report, Seller shall credit Buyer with the statutory fee at closing.

20. EQUAL HOUSING RIGHTS: This Agreement is subject to all local statutory laws prohibiting discrimination in commercial and residential real estate transactions.



21. BUYER'S RIGHT TO DEED PROPERTY BACK TO SELLER: If Buyer determines this transaction is not in its best interest, Buyer may, in its sole discretion, deed by General Warranty Deed the Property back to Seller. If Buyer elects to do so, Buyer shall give Seller notice via both certified mail and regular mail. This provision shall survive Closing but in no case extend beyond ______ years from the date of closing.

22. ONLINE ACCESS: Seller shall provide Buyer the account name and password for online access to Seller's first mortgage and second mortgage (if applicable) at Closing. Seller agrees that Buyer shall have full online access to Seller's first mortgage and second mortgage (if applicable) at any time after Closing until such mortgage(s) is paid in full. Seller shall fully cooperate with Buyer after Closing if Buyer requests Seller's assistance with said online access. This provision shall survive Closing until such mortgage(s) is paid in full.

23. ADDENDUM: The following attached Addenda and/or Riders are part of this Agreement: N/A

24. ADDITIONAL TERMS AND CONDITIONS: We buy as-is, where is. No repairs expected or implied.

25. FAX TRANSMISSION: The parties acknowledge that this Agreement and any addenda or modification and/or any notices due hereunder may be transmitted between them by facsimile machine, e-FAX, or via email and the parties intend that a faxed document containing either the original and/or copies of the parties' signatures shall be binding and of full effect.

26. COMPLETE AGREEMENT: This Agreement contains the entire agreement between Buyer and Seller concerning this transaction and supersedes any and all previous written or oral agreements concerning the Property. Any extensions or modifications of this Agreement shall be in writing signed by the parties.

27. NOTICE: Any notice required or permitted under the terms of this Agreement by Buyer or Seller shall be in writing addressed to the party concerned using the address stated in Paragraph 1 of this Agreement or to such party's attorney or to the party's Listing Broker or Cooperating Broker designated in Paragraph 17.

28. RECEIPT: Buyer and Seller acknowledge receipt of a copy of this Agreement upon their signing same.

29. TIME TO ACCEPT: Seller shall have until ______________ to accept this Agreement.

30. SIGNATURES:

Buyer's Signature	Date	Seller's Signature	Date
		Seller's Signature	Date

Seller Acknowledgement, Disclosure and Addendum to Sales Contract

I, ___________________________ (Seller), this ______ day of ________________, 20___, have agreed in writing to sell the property located at _________________________________ (The Property) to ____ (Buyer) and or his assigns, according to the terms and conditions contained and described in the Purchase and Sale Agreement (The Sales Agreement) of same date, a copy of which is attached . I further state as follows:

________ 1. OWNERSHIP OF THE PROPERTY: I am the owner of The Property and am able to contract for its sale. There are neither other owners nor anyone else who has any interest in the property or who could contest the sale.

________ 2. ACCEPTANCE OF OFFER PRESENTED: I have reviewed the terms and conditions contained in The Sales Agreement and have accepted the Buyer's offer to purchase The Property and am in absolute agreement that selling at the terms and price in the agreement are in my best interests.

________ 3. CONSIDERATION: I have received good, adequate and valuable consideration in signing The Sales Agreement, and I acknowledge both the receipt and the sufficiency of the consideration.

________ 4. IN MY BEST INTEREST: I am satisfied with The Sales Agreement and have agreed to sell The Property because it is in my best interest to do so. I have evaluated my situation carefully and know that selling the property with the terms and conditions outlined in The Sales Agreement is, indeed, in my very best interests.

________ 5. I AM FULLY INFORMED AND NOT CONFUSED, DISORIENTED OR OTHERWISE IMPARED: I have signed The Agreement being fully informed and with sufficient understanding of all terms and conditions contained therein. I am not confused in any way, about any aspect of The Sales Agreement.

________ 6. I AM SATISFIED WITH THE SALES PRICE: I understand I may be selling The Property for less than market value but have chosen to do so because my unique circumstances necessitate an immediate sale and even though the sale is at a discounted price, is in my best interest to do so. I am satisfied with the sales price I have negotiated.

________ 7.THIS SALE IS ABSOLUTELY FINAL: I understand by signing The Sales Agreement, I have agreed to sell The Property to the Buyer and am now legally bound by the terms and conditions described in The Sales Agreement. I further understand that I cannot “change my mind” or the terms or try to cancel the contract at some later neither date, nor can I continue to market The Property to any other buyer, under any circumstances.

________ 8. I UNDERSTAND THAT CONTINGENCIES MAY EXIST: I understand the sale may be contingent upon Buyer's inspection and approval of certain items described in The Sales Agreement. I further understand that if Buyer does not approve of these items after closer inspection, the Buyer may cancel The Sales Agreement and if cancelled, I must return Buyer's earnest money in full, without hesitation. I understand that The Buyer may decide not to purchase the property after all and I have agreed to give him that right to change his mind.

________ 9. THIS IS NOT A LOAN OF ANY KIND: I understand The Sales Agreement I have signed is for the outright sale of The Property and is not intended to be a loan of any kind, on this property or for any other reason.

________ 10. THIS AGREEMENT MAY BE ASSIGNED: I understand Buyer may assign The Sales Agreement to another buyer, person or company and I may be settling the sale with someone other than the initial Buyer. I have agreed to this and understand.

________ 11.POSSIBILITY OF NO FORMAL SETTLEMENT: I understand Buyer may choose to complete this transaction without the use of an attorney and may record the deed and other documents himself.

________ 12. SETTLEMENT DOCUMENTS: I understand there will most likely be additional settlement documents to sign and upon presentation, agree to sign and deliver the settlement documents either to the attorney or directly to Buyer, as Buyer may direct, in a timely manner.

________ 13. COPIES OF THE PAPERWORK: I understand that copies of the contracts and other documents I've signed will be provided to me in a timely manner and I agree and acknowledge that circumstances may mean that copies may not be immediately available to me but will be made available to me within a reasonable period of time.

________ 14. I ABSOLUTELY AGREE THAT THE BUYER IS ENTITLED TO PROFIT FROM THIS TRANSACTION: I understand Buyer may resell The Property and may realize a substantial profit in doing so. I agree Buyer is entitled to any profit, in any amount that may ultimately result from the subsequent resale of The Property.

________ 15. LEGAL COUNSEL ADVISED HAS BEEN ADVISED: I agree and acknowledge Buyer has advised me to seek independent legal counsel to review The Sales Agreement. If I chose not to seek council it was a decision I made of my own accord.

________ 16. A FINANCIAL REVIEW HAS BEEN ADVISED: I acknowledge Buyer has advised me to seek an independent financial advisor to review The Sales Agreement. If I have not sought out a financial review it was a decision I made of my own free will.

________ 17. I AGREE THIS TRANSACTION WAS FAIRLY NEGOTIATED: I understand Buyer has negotiated on his own behalf and I have negotiated on mine. I acknowledge The Sales Agreement has been negotiated fairly and Buyer has not taken advantage of my current situation or me.

________ 18. NO INCAPACITATING CONDITIONS: I have no physical, mental or emotional conditions or ailments that would cause in any way for me not to be able to make a rational, well thought out decision about signing The Sales Agreement.

________ 19. I AM NOT UNDER THE INFLUENCE OF ANT MIND ALTERING SUBSTANCE: I am not now under the influence of alcohol or any other mind-altering substance or drug, legal or otherwise, nor am I taking medication that would cloud my judgment or reasoning abilities or make me unable to think clearly. I am in full control of my mental faculties.

________ 20. NO OTHER PROMISES HAVE BEEN MADE: I have not been promised anything other than what is described in The Sales Agreement. There are no unresolved issues, no “side agreements,” nor are their other terms not disclosed in The Sales Agreement. Every agreement made here has been reduced to writing.

________ 21. I AM NOT UNDER DURESS: I am not under duress and have signed The Sales Agreement of my own free will, without any undue financial pressure. The Buyer has in no way pressured me into signing The Sales Agreement.

________ 22. I AM FULLY SATISFIED WITH AGREEMENT: I am fully satisfied with all terms and conditions contained in The Sales Agreement and have been given every opportunity to negotiate the terms that I want.

________ 23. SELLING SUBJECT-TO EXISTING FINANCING: If my buyer is purchasing the property subject to the existing financing, I understand that the loan payments will be made monthly but not paid off completely at this time. I understand that if my loan contains a due on sale clause there is a risk that

the bank if they find out about the transfer, may call the loan due. I am proceeding with this sale in full awareness of these possible risks and have no hesitation in doing so.

________ 24. I AM ABSOLUTELY SATISFIED WITH MY DECISION AND MY DEAL WITH MY BUYER: I have made this as my final decision to move the property and move on with my life. My buyer has been of tremendous assistance with this decision and I am grateful for his help.

Dated this _____ day of ___________________, 20____.

___________________________ Seller (Signature)

___________________________ Seller (Signature)

___________________________ Unofficial Witness (Signature)

___________________________ Notary Public (Signature)

DUE DILIGENCE CONTINGENCIES ADDENDUM

Prepared by: Agent ______________________________ Phone ________________________
Broker ______________________________ Email ________________________

DATE: _____________, 20______, at ____, California.

Items left blank or unchecked are not applicable.

FACTS:

1. This is an addendum to the following agreement:

☐ Purchase Agreement ☐ Counteroffer

☐ Escrow Instructions ☐ ______________________________

1.1 dated _____________, 20______, at ____, California,

1.2 entered into by ____, as the Buyer, and

1.3 ____, as the Seller,

1.4 regarding real estate referred to as ____

____.

DUE DILIGENCE CONTINGENCIES:

In addition to the terms of the above referenced agreement, Buyer and Seller agree to the following:

2. Within ______ days after receipt, or access has been made available, of all items checked below for buyer's review, Buyer may terminate the agreement based on Buyer's reasonable disapproval of any conditions checked below.

2.1 Buyer and Buyer's representatives and consultants will not disclose to any third party the contents of any documentation or information provided by Seller or Seller's representatives to fulfill Seller's duties under this agreement.

2.2 In the event Buyer does not acquire ownership of the property, Buyer to return to Seller all items received from Seller or Seller's representatives.

3. Seller to hand Buyer copies, or make available for Buyer's review, each of the following checked items as soon as reasonably practicable after entry into this agreement.

3.1 ☐ A Rental Income Rent Roll statement itemizing, by unit or space, the tenant's name, monthly rent amount including CAMs and other additional rent fees, rent due date, delinquencies and the amount in arrears, rental period and expiration date, any incentive rent-free arrangements and bonuses or discounts, utilities paid by landlord, security deposits and prepaid rent, furnishings supplied, broker fees due or to become due under the leases. [See **ft** Form 352-1]

3.2 ☐ Tenant rental or lease agreements, including any riders, modifications or amendments and side agreements; any option rights to renew or extend, lease additional space or purchase the property; and any pre-expiration cancellation rights and penalty amounts. A tenant turn-over report and an eviction report, by unit or space, for the current and two preceding years.

3.3 ☐ Operating income and expense records, the current year-to-date and two preceding years' profit and loss statements (or schedule E) and capital expenditures for the property, and operating and capital budgets for this and the following year.

3.4 ☐ Property management agreements and a list of employees including their compensation schedules, and leasing agent listings to locate tenants.

3.5 ☐ Maintenance agreements, outstanding work orders and other service or supply agreements related to the operation of the property.

3.6 ☐ Utility, cable/TV, internet and phone bills, property and business tax bills, assessment statements for any rent control and special district improvement bonds.

3.7 ☐ Invoices and copies of advertising and marketing for units or spaces during the past two years, along with any marketing budget and plans for this year and next.

3.8 ☐ Interview of individuals involved in the management and operations of the property and administration of the property's financial books and records.

3.9 ☐ Natural Hazard Disclosure Statement issued by a geologist and signed by Owner, and any geological reports relating to the property and possessed or known to Owner. [See **ft** Form 314]

3.10 ☐ Conditions of property disclosures prepared and signed by Owner. [See **ft** Form 304 and 304-1]

3.11 ☐ Seller's Neighborhood Security Disclosure prepared by Owner setting forth criminal activity on or about the property during the past two years relevant to the security of persons and their belongings on the property, and any security arrangements undertaken or which should be undertaken in response. [See **ft** Form 321]

3.12 ☐ Appraisals, feasibility studies, and market studies relating to the value and rentability of the properties.

3.13 ☐ Soil reports, pest control reports, ADA compliance reports, structural or component reports by architects or contractors and other similar reports or studies.

3.14 ☐ ALTA survey, topographical studies, plans and specification of improvements and engineering of the site.

3.15 ☐ An inspection of the property by prospective Buyer or consultants within ____ days after mutual agreement to this letter.

3.16 ☐ All government related licenses, permits, mapping of the parcel, certificates of occupancy, building inspections, health and safety reports, environmental impact and conditions reports or studies known to Owner, and copies of relevant local zoning ordinances affecting the use or operation of the property.

3.17 ☐ Warranties or guaranties on fixtures or components of the property improvements.

3.18 ☐ Preliminary title report for the policy of title insurance, which Seller will cause escrow to hand Buyer as soon as reasonably possible after acceptance.

3.19 ☐ Itemized inventory of the personal property, including any trade fixtures, owned or leased by Owner and used in the operation or maintenance of the property.

3.20 ☐ All effective insurance policies relating to the property and liability of Owner for its operations, statements of premiums, and any claims made under any insurance policy covering the property during the past ______ years, including claims made against building contractors.

3.21 ☐ The note, trust deed or related documents for each monetary lien on the property to include any restrictions, limitations or conditions on occupancy, rents, use, encumbrance, conveyance or reconveyance.

3.22 ☐ Disclosure by Owner of any other conditions not here itemized and known to Owner which might adversely affect the value, use and operations of the property.

3.23 ☐ Any other items prospective Buyer may reasonably request to complete his due diligence investigation and review of the property and records.

3.24 ☐ Additional requested items of documentation or information include:

____

____

____

____

____

____

____

Buyer: I agree to the terms stated above.	Seller: I agree to the terms stated above.
Date: ______________, 20______	Date: ______________, 20______
Buyer's Signature: ________________________________	Seller's Signature: ______________________________
Buyer's Signature: ________________________________	Seller's Signature: ______________________________
Buyer's Signature: ________________________________	Seller's Signature: ______________________________

ALL-INCLUSIVE PROMISSORY NOTE SECURED BY DEED OF TRUST

Installment — Interest Included

Prepared by: Agent ______________________________ **Phone** ________________________
Broker ______________________________ **Email** ________________________

NOTE: RECOMMENDED FOR USE WITH **first tuesday** FORMS 442 AND 443.

$________________, dated ______________, 20______, at ____, California.

1. In installments as herein stated, for value received, I, jointly and severally, promise to pay to

1.1 ____, as the Payee, or order,

1.2 at ____,

1.3 the sum of ____ DOLLARS,

1.4 with interest from ___________________, 20______, on unpaid principal

1.5 at the rate of _________% per annum.

2. Principal and interest payable in installments of ______________________________________ DOLLARS, or more,

2.1 on the ______________ day of every ☐ month ☐ quarter ☐ year,

2.2 beginning on the ______________ day of _____________________, 20________,

2.3 and continuing until ______________, 20______, when the principal is due and payable.

2.4 Principal and interest payable in lawful money of the United States.

2.5 Each payment shall be credited first on interest then due and the remainder on principal.

3. The principal amount of this Note includes:

3.1 The present unpaid balance of $________________, on a debt evidenced by a Note and secured by an existing Trust Deed held by ____, in the original amount of $________________, which debt remains the obligation of Payee.

3.2 The present unpaid balance of $________________, on a debt evidenced by a Note and secured by an existing Trust Deed held by ____, in the original amount of $________________, which debt remains the obligation of Payee.

4. On default in payment of any installment when due, the whole sum of principal and interest may be called immediately due at the option of the Note holder.

5. ____
____
____
____
____
____
____

6. In any action to enforce this Note, the prevailing party shall receive attorney fees.

7. This Note is secured by a DEED OF TRUST.

Payor's Name: ____________________________________

Signature: ____

Payor's Name: ____________________________________

Signature: ____

Payor's Name: ____________________________________

Signature: ____

Payor's Name: ____________________________________

Signature: ____

ALL-INCLUSIVE TRUST DEED ADDENDUM

Full Payoff

Prepared by: Agent ______________________________ **Phone** ________________________
Broker ______________________________ **Email** ________________________

NOTE: Recommended for use with **ft** Forms 421 and 450.

DATE:_____________, 20______, at____, California.

Items left blank or unchecked are not applicable.

FACTS:

This is an addendum to the trust deed dated _____________, 20______, at ___________________________, California, between ____, as the Trustor, and ____, as the Beneficiary.

AGREEMENT:

1. This trust deed is subordinate to the following notes and trust deeds referred to as Underlying Obligations:

1.1 A trust deed recorded on ______________________________, as Instrument No. ___________________, in ____ County Records, California, executed by ____, as the Trustor, in which ____ is the Beneficiary, securing a note in the original amount of $_______________ with an unpaid balance of $_______________, payable in installments of $_______________ monthly, including _______ % interest, ☐ ARM, ☐ plus impounds.

1.2 A trust deed recorded on ________________________________, as Instrument No. _________________, in ____ County Records, California, executed by ____, as the Trustor, in which ____ is the Beneficiary, securing a note in the original amount of $_______________ with an unpaid balance of $_______________, payable in installments of $_______________ monthly, including _______% interest, ☐ ARM, all due _____________, 20______.

1.3 Beneficiary to pay all installments and payments called for on the Underlying Obligations.

2. ☐ Check, if applicable:
Trustor to deposit with Beneficiary sufficient funds for the payment of taxes and fire insurance, specifically one-twelfth ($1/12$) of the annual requirements on each calendar month with installment payment. An advance deposit for such payment in the amount of $_______________ from Trustor has been received by Beneficiary.

3. ☐ Check, if applicable: *[This provision may cause adverse income tax consequences for Beneficiary.]*
Beneficiary shall place the Note on contract collection with a bank, savings and loan, escrow or broker authorized to do so. Such collection shall disburse the monies received first toward the current installment on the Underlying Obligations, then to taxes and insurance if provided for herein, and any amount then remaining shall be disbursed to the holders of the Note.

4. If Beneficiary defaults in his performance under this trust deed, Trustor, provided that he is not then in default, shall have the right, at his option, to cure Beneficiary's default including the Underlying Obligations by either; (a) crediting any and all such payments against the principal and interest payments next becoming due under the Note, or (b) immediately recovering from Beneficiary the amount of such payments including interest thereon at the Note rate.

5. In the event of any monetary default by Trustor, Beneficiary's obligations shall be suspended until the default is cured. If Trustor is delinquent in any payments and Beneficiary consequently incurs penalties or expenses on the Underlying Obligations, the amount of such penalties and expenses shall be added to the Note and be payable by Trustor with the next payment.

6. Any additional principal paid on the Note shall, if Trustor so directs Beneficiary in writing, be paid by Beneficiary to the holders of the Underlying Obligations for credit to the unpaid principal thereof. If the prepayment entitles the holders to receive a prepayment penalty, this amount must then be paid by Trustor to Beneficiary for payment of the penalty. The prepayment penalty shall not reduce the unpaid balance of principal or interest under the Note.

7. In the event of foreclosure of this all-inclusive trust deed, Beneficiary will at the Trustee's sale bid an amount representing the amount then due on the obligations secured hereby, plus any advances or other disbursements which Beneficiary may be permitted to include, on which bid Beneficiary to discharge and obtain reconveyance of the Underlying Obligations.

8. When the Note becomes due and payable or Trustor requests a demand for payoff, the principal amount of the payoff shall be the then unpaid principal and interest, and on receipt of payoff funds, Beneficiary to discharge and obtain reconveyance of the Underlying Obligations.

ALL-INCLUSIVE TRUST DEED ADDENDUM

Equity Payoff

Prepared by: Agent ____________________________ **Phone** ________________________
Broker ____________________________ **Email** ________________________

NOTE: Recommended for use with **ft** Forms 421 and 450.

DATE:_____________, 20______, at ____, California.

Items left blank or unchecked are not applicable.

FACTS:

This is an addendum to the trust deed dated __________________, at ________________________________, California, between ____, as the Trustor, and ____, as the Beneficiary.

AGREEMENT:

1. This trust deed is subordinate to the following notes and trust deeds referred to as Underlying Obligations:

1.1 A trust deed recorded on ______________________________, as Instrument No. ___________________, in ____ County Records, California, executed by ____, as the Trustor, in which ____ is the Beneficiary, securing a note in the original amount of $_______________ with an unpaid balance of $_______________, payable in installments of $_______________ monthly, including _______% interest, ☐ ARM, ☐ plus impounds.

1.2 A trust deed recorded on ________________________________, as Instrument No. _________________, in ____ County Records, California, executed by ____, as the Trustor, in which ____ is the Beneficiary, securing a note in the original amount of $_______________ with an unpaid balance of $_______________, payable in installments of $_______________ monthly, including _______% interest, ☐ ARM, all due _____________, 20______.

1.3 Beneficiary to pay all installments and payments called for on the Underlying Obligations.

2. ☐ Check, if applicable:
Trustor to deposit with Beneficiary sufficient funds for the payment of taxes and fire insurance, specifically one-twelfth ($1/12$) of the annual requirements on each calendar month with installment payment. An advance deposit for such payment in the amount of $_______________ from Trustor has been received by Beneficiary.

3. ☐ Check, if applicable: *[This provision may cause adverse income tax consequences for Beneficiary.]*
Beneficiary shall place the Note on contract collection with a bank, savings and loan, escrow or broker authorized to do so. Such collection shall disburse the monies received first toward the current installment on the Underlying Obligation, then to taxes and insurance if provided for herein, and any amount then remaining shall be disbursed to the holders of the Note.

4. If Beneficiary defaults in his performance under this trust deed, Trustor, provided that he is not then in default, shall have the right, at his option, to cure Beneficiary's default including the Underlying Obligations by either; (a) crediting any and all such payments against the principal and interest payments next becoming due under the Note, or (b) immediately recovering from Beneficiary the amount of such payments including interest thereon at the Note rate.

5. In the event of any monetary default by Trustor, Beneficiary's obligations shall be suspended until the default is cured. If Trustor is delinquent in any payments and Beneficiary consequently incurs penalties or expenses on the Underlying Obligations, the amount of such penalties and expenses shall be added to the Note and be payable by Trustor with the next payment.

6. Any additional principal paid on the Note shall, if Trustor so directs Beneficiary in writing, be paid by Beneficiary to the holders of the Underlying Obligations for credit to the unpaid principal thereof. If the prepayment entitles the holders to receive a prepayment penalty, this amount must then be paid by Trustor to Beneficiary for payment of the penalty. The prepayment penalty shall not reduce the unpaid balance of principal or interest under the Note.

7. In the event of foreclosure of this all-inclusive trust deed, Beneficiary will at the Trustee's sale bid an amount representing the amount then due on the obligations secured hereby less the total balance due on the Underlying Obligations, plus any advances or other disbursements which Beneficiary may be permitted to include.

8. When the Note becomes due and payable or Trustor requests a demand for payoff, the principal amount then unpaid shall be reduced by the then unpaid balance of the Underlying Obligations.

RECORDING REQUESTED BY:

AND WHEN RECORDED MAILTO:

SPACE ABOVE THIS LINE IS FOR RECORDER'S USE

A.P.N.:________________________________Order No.:___________________________Escrow No.:___________________________

ALL-INCLUSIVE DEED OF TRUST WITH ASSIGNMENT OF RENTS (LONG FORM)

This ALL-INCLUSIVE DEED OF TRUST, made ___________________, between ____ herein called TRUSTOR, whose address is____,

____, a California corporation, herein called TRUSTEE, and ____________________________________, herein called BENEFICIARY, WITNESSETH: That Trustor grants to Trustee in trust, with power of sale, that property in the __________________, County of __________________, State of California, described as:

together with the rents, issues and profits thereof, subject, however, to the right, power and authority hereinafter given to and conferred upon Beneficiary to collect and apply such rents, issues and profits for the purpose of securing (1) payment of the sum of $______________ with interest thereon according to the terms of an all-inclusive promissory note of even date herewith (hereinafter "the Secured Note") made by Trustor, payable to order of Beneficiary, and extensions or renewals thereof, and (2) the performance of each agreement of Trustor incorporated by reference or contained herein.

A. Senior Deed(s) of Trust: This is an All-Inclusive Deed of Trust, securing the Secured Note and is subject and subordinate to the following instruments:

(1) A Deed of Trust recorded _______________________________, as Instrument No. ___________________, in Book ___________, Page _______, of Official Records of _________________ County, California, in the original principal sum of ____ Dollars ($ ___________________) in favor of ____ as Payee, securing a note in the original amount of $ _________________.

(2) A Deed of Trust recorded, _______________________________, as Instrument No. ___________________, in Book ___________, Page _______, of Official Records of _________________ County, California, in the original principal sum of ____ Dollars ($ ______________________) in favor of ____ as Payee, securing a note in the original amount of $ _________________.

The Promissory Note(s) secured by said Deed(s) of Trust is (are) hereinafter referred to as the "Senior Note(s)."

B. To protect the security of the All-Inclusive Deed of Trust, Trustor agrees:

1) To keep said property in good condition and repair; not to remove or demolish any building thereon; to complete or restore promptly and in good and workmanlike manner any building which may be constructed, damaged or destroyed thereon and to pay when due all claims for labor performed and materials furnished therefore, to comply with all laws affecting said property or requiring any alterations or improvements to be made thereon; not to commit or permit waste thereon; not to commit, suffer or permit any act upon said property in violation of law; to cultivate, irrigate, fertilize, fumigate, prune and do all other acts which from the character or use of said property may be reasonably necessary, the specific enumerations herein not excluding the general.
2) To provide, maintain and deliver to Beneficiary fire, vandalism and malicious mischief insurance satisfactory to and with loss payable to Beneficiary. The amount collected under any fire or other insurance policy may be applied by Beneficiary upon any indebtedness secured hereby and in such order as Beneficiary may determine, or at option of Beneficiary the entire amount so collected or any part thereof may be released to Trustor. Such application or release shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice. The provisions hereof are subject to the mutual agreements of the parties as below set forth.
3) To appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee and to pay all costs and expenses, including cost of evidence of title and attorney's fees in a reasonable sum, in any such action or proceeding in which Beneficiary or Trustee may appear, and in any suit brought by Beneficiary to foreclose this All-Inclusive Deed of Trust.
4) To pay: (a) at least ten days before delinquency all taxes and assessments affecting said property, including assessments on appurtenant water stock; (b) when due, subject to the mutual agreements of the parties as below set forth, all encumbrances, charges and liens, with interest, on said property or any part thereof, which appear to be prior or superior hereto; (c) all allowable expenses of this Trust.

Should Trustor fail to make any payment or to do any act as herein provided, then Beneficiary or Trustee, but without obligation so to do and without notice to or demand upon Trustor and without releasing Trustor from any obligation hereof, may: make or do the same in such manner and to such extent as either may deem necessary to protect the security hereof, Beneficiary or Trustee being authorized to enter upon said property for such purposes; appear in and defend

any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee; pay, purchase, contest or compromise any encumbrance, charge or lien which in the judgment of either appears to be prior or superior hereto; and, in exercising any such powers, pay allowable expenses.

5) To pay immediately and without demand all sums so expended by Beneficiary or Trustee, with interest from date of expenditure at the amount allowed by law in effect at the date hereof.

C. It is mutually agreed:
1) That any award of damages in connection with any condemnation for public use of or injury to said property or any part thereof is hereby assigned and shall be paid to Beneficiary who may apply or release such moneys received by him in the same manner and with the same effect as above provided for disposition of proceeds of fire or other insurance.
2) That by accepting payment of any sum secured hereby after its due date, Beneficiary does not waive his right either to require prompt payment when due of all other sums so secured or to declare default for failure so to pay.
3) That at any time or from time to time, without liability therefore and without notice, upon written request of Beneficiary and presentation of this All-Inclusive Deed of Trust and the Secured Note for endorsement, and without affecting the personal liability of any person for payment of the indebtedness secured hereby, Trustee may: reconvey any part of said property; consent to the making of any map or plat thereof; join in granting any easement thereon; or join in any extension agreement or any agreement subordinating the lien or charge hereof.
4) That upon written request of Beneficiary stating that all sums secured hereby have been paid, and upon surrender of this All-Inclusive Deed of Trust and the Secured Note to Trustee for cancellation and retention or other disposition as Trustee in its sole discretion may choose and upon payment of its fees, Trustee shall reconvey, without warranty, the property then held hereunder. The recitals in such reconveyance of any matters or facts shall be conclusive proof of the truthfulness thereof. The Grantee in such reconveyance may be described as "the person or persons legally entitled thereto."
5) That as additional security, Trustor hereby gives to/and confers upon Beneficiary the right, power and authority, during the continuance of these Trusts, to collect the rents, issues and profits of said property, reserving unto Trustor the right, prior to any default by Trustor in payment of any indebtedness secured hereby or in performance of any agreement hereunder, to collect and retain such rents, issues and profits as they become due and payable. Upon any such default, Beneficiary may at any time without notice, either in person, by agent, or by a receiver to be appointed by a court, and without regard to the adequacy of any security for the indebtedness hereby secured, enter upon and take possession of said property or any part thereof, in his own name sue for or otherwise collect such rents, issues and profits, including those past due and unpaid, and apply the same, less allowable expenses of operation, upon any indebtedness secured hereby, and in such order as Beneficiary may determine. The entering upon and taking possession of said property, the collection of such rents, issues and profits and the application thereof as aforesaid, shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.
6) That upon default by Trustor in payment of any indebtedness secured hereby or in performance of any agreement hereunder, Beneficiary may declare all sums secured hereby immediately due and payable by delivery to Trustee of written declaration of default and demand for sale and of written notice of default and of election to cause to be sold said property, which notice Trustee shall cause to be filed for record. Beneficiary also shall deposit with Trustee this All-Inclusive Deed of Trust, the Secured Note and all documents evidencing expenditures secured hereby.
After the lapse of such time as may then be required by law following the recordation of said notice of default, and notice of sale having been given as then required by law, Trustee, without demand on Trustor, shall sell said property at the time and place fixed by it in said notice of sale, either as a whole or in separate parcels, and in such order as it may determine, at public auction to the highest bidder for cash in lawful money of the United States, payable at time of sale. Trustee may postpone sale of all or any portion of said property by public announcement at such time and place of sale, and from time to time thereafter may postpone such sale by public announcement at the time fixed by the preceding postponement. Trustee shall deliver to such purchaser its deed conveying the property so sold, but without any covenant or warranty, express or implied. The recitals in such deed of any matters or facts shall be conclusive proof of the truthfulness thereof. Any person, including Trustor, Trustee, or Beneficiary as hereinafter defined, may purchase at such sale.
After deducting all costs, fees and expenses of Trustee and of this Trust, including cost of evidence of title in connection with sale, Trustee shall apply the proceeds of sale to payment of all sums expended under the terms hereof, not then repaid, with accrued interest at the amount allowed by law in effect at the date hereof; all other sums then secured hereby; and the remainder, if any, to the person or persons legally entitled thereto. However, all costs, fees and expenses set forth in this paragraph shall not be applicable to or charged by the Trustor or his successor in interest.
7) Beneficiary, or any successor in ownership of any indebtedness secured hereby, may from time to time, by instrument in writing, substitute a successor or successors to any Trustee named herein or acting hereunder, which instrument, executed by the Beneficiary and duly acknowledged and recorded in the office of the recorder of the county or counties where said property is situated, shall be conclusive proof of proper substitution of such successor Trustee or Trustees, who shall, without conveyance from the Trustee predecessor, succeed to all its title, estate, rights, powers and duties. Said instrument must contain the name of the original Trustor, Trustee and Beneficiary hereunder, the book and page where this All-Inclusive Deed of Trust is recorded and the name and address of the new Trustee.
8) That this All-Inclusive Deed of Trust applies to, inures to the benefit of, and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns. The term Beneficiary shall mean the owner and holder, including pledgees, of the note secured hereby, whether or not named as Beneficiary herein. In this All-Inclusive Deed of Trust, whenever the context so requires, the masculine gender includes the feminine and/or neuter, and the singular number includes the plural.
9) That Trustee accepts this Trust when this All-Inclusive Deed of Trust, duly executed and acknowledged, is made a public record as provided by law. Trustee is not obligated to notify any party hereto of pending sale under any other Deed of Trust or of any action or proceeding in which Trustor, Beneficiary or Trustee shall be a party unless brought by Trustee.

D. The Parties Further Agree:
1) By Beneficiary's acceptance of this All-Inclusive Deed of Trust, Beneficiary agrees that, provided Trustor is not in default on the Secured Note, Beneficiary shall pay all installments of principal and interest which become due under the terms of the Senior Note(s). In the event Trustor shall be in default on the Secured Note, Beneficiary's obligation under the Senior Note(s) is deferred until the default under the Secured Note is cured. Should the Beneficiary default in any of the installments as to the payment on the Senior Note(s) at a time when Trustor is not in default in the performance of the obligations of the Trustor under the Secured Note or this All-Inclusive Deed of Trust, the Trustor may make said payments directly to the holder of such Senior Note(s); any and all payments so made shall be credited to the Secured Note against the next succeeding installments of principal and interest. Nothing contained herein shall be construed to create a third party beneficiary relationship between the Beneficiary and any other person.
2) Notwithstanding any covenants contained in the Senior Note(s) or Deed(s) of Trust securing same, Beneficiary shall have no further duty under this All-Inclusive Deed of Trust when: (i) the lien of this All-Inclusive Deed of Trust has been extinguished by foreclosure sale or (ii) this All-Inclusive Deed of Trust has

been duly reconveyed after payment in full of the Secured Note and subsequent to the payment by the Beneficiary herein of Trustor's portion of the Senior Note(s) which the Beneficiary herein is required to pay to the holder of said Senior Note(s).

Should Trustor be in default under the terms of the Secured Note and if Beneficiary consequently incurs any penalties, charges, or other expenses on account of the Senior Note(s) during the period of such default, the amount of such penalties, charges and expenses shall be immediately added to the principal amount of the Secured Note and shall be immediately payable by Trustor to Beneficiary.

If at any time the total of: the unpaid balance of the Secured Note, the accrued interest thereon, all other sums due under the terms thereof and all sums advanced by Beneficiary pursuant to the terms of this All-Inclusive Deed of Trust, is equal to or less than the unpaid principal balance of the Senior Note(s) and accrued interest thereon, the Secured Note, at the option of Beneficiary, shall be cancelled and said property shall be reconveyed from the lien of this All-Inclusive Deed of Trust.

3) Trustor and Beneficiary agree that in the event the proceeds of any condemnation award or settlement in lieu thereof, or the proceeds of any casualty insurance covering destructible improvements located upon said property, are applied by the holder of the Senior Note(s) in reduction of the unpaid principal amount thereof, the unpaid principal balance of the Note secured hereby shall be reduced by an equivalent amount and be deemed applied to the last sums due under the Secured Note.

4) At such time as the Secured Note becomes fully due and payable, the unpaid indebtedness of principal and interest owning thereon shall be reduced by the then unpaid balance of principal and interest due on the Senior Note(s).

5) Any demand hereunder delivered by Beneficiary to Trustee for the foreclosure of the lien of this All-Inclusive Deed of Trust may be not more than the sum of the following amounts: (i) The equity of Beneficiary in the note secured hereby being the difference between the then-unpaid balance of principal and interest accrued and unpaid on the Secured Note on the date of such foreclosure sale and the then unpaid balance of principal and interest so accrued and unpaid on the Senior Note(s) as of the date of such foreclosure sale; plus (ii) The aggregate of all amounts theretofore paid by Beneficiary pursuant to the terms of this All-Inclusive Deed of Trust prior to the date of such foreclosure sale, for taxes and assessments, insurance premiums, delinquency charges, foreclosure costs, and any other sums advanced by Beneficiary pursuant to the terms of this All-Inclusive Deed of Trust, to the extent the same were not previously repaid by Trustor to Beneficiary; plus (iii) The costs of foreclosure together with attorneys' fees and costs incurred by Beneficiary in enforcing this All-Inclusive Deed of Trust or the Note secured hereby as permitted by law.

6) Notwithstanding any provision to the contrary herein contained, Beneficiary for himself, his successors and his assigns, agrees that, in the event of a foreclosure of this All-Inclusive Deed of Trust, he will, at the trustee's sale, offset his bid by an amount not exceeding the amount representing the total amount then due under the note secured hereby plus any advances or other disbursements which Beneficiary and his successors or assigns, may, by law, be permitted to include as an offset to his bid, less the then actual total balance due upon any notes or obligations secured by any and all deeds of trust having priority over this All-Inclusive Deed of Trust and covering the above described real property or any portion thereof. The Trustee may rely on any statements received from Beneficiary as to the unpaid total balance, advances or disbursements, and such statements shall be deemed binding and conclusive as between Beneficiary and Trustor, on the one hand, and Trustee, on the other hand, to the extent of such reliance.

7) Trustor covenants and agrees that Trustor shall perform and observe all obligations to be performed and observed by Trustor under the Deed(s) of Trust securing the Senior note(s).

The undersigned Trustor requests that a copy of any notice of default and of any notice of sale hereunder be mailed to him at his address hereinbefore set forth.

____________________ Trustor	____________________ Trustor
____________________ Trustor	____________________ Trustor
____________________ Beneficiary	____________________ Beneficiary
____________________ Beneficiary	____________________ Beneficiary

Dated ____________________

STATE OF CALIFORNIA

COUNTY OF ____________________

On ____________________ before me, ____________________, personally appeared ____________________,

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under the PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

____________________ (Notary seal)

Signature

(IT IS RECOMMENDED THAT, PRIOR TO THE EXECUTION OF THIS ALL-INCLUSIVE DEED OF TRUST, THEPARTIES CONSULT WITH THEIR ATTORNEYS WITH RESPECT TO SAME.)

DO NOT RECORD ____ **REQUEST FOR FULL RECONVEYANCE**

TO ____, TRUSTEE:

The undersigned is the legal owner and holder of the note and of all indebtedness secured by the foregoing Deed of Trust. Said note, together with all other indebtedness secured by said Deed of Trust, have been fully paid and satisfied; and you are hereby requested and directed, on payment to you of any sums owing to you under the terms of said Deed of Trust, to cancel said note above mentioned, and all other evidences of indebtedness secured by said Deed of Trust delivered to you herewith, together with the said Deed of Trust, and to reconvey, without warranty, to the parties designated by the terms of said Deed of Trust, all the estate now held by you under the same.

Dated ______________________________ ____

____

Please mail Deed of Trust,
Note and Reconveyance to ____

DO NOT lose or destroy this Deed of Trust OR THE NOTE which it secures. BOTH must be delivered to the Trustee for cancellation before reconveyance will be made.

PURCHASE & SALE AGREEMENT FOR REAL ESTATE

AGREEMENT dated this _______day of_______________20_____ by and between ____ ____ hereinafter "Seller" whose address is____

_ a n d ____ hereinafter "Buyer" (and/or assigns or nominees) whose address is ____.

1. THE PROPERTY. The parties hereby agree that Seller will sell and Buyer will buy the following property, located in and situate in the County of ___________________, State of ______________________, known by street and address as ____, more particularly described as follows (enter legal description below):

EXACT LEGAL DISCRIPTION TO FOLLOW

The sale shall also include all personal property and fixtures, except ____

____.

Unless specifically excluded, all other items will be included, whether or not affixed to the property or structures. Seller warrants that property, improvements, building or structures, the appliances, roof, plumbing, heating and/or ventilation systems are in good and working order. **This clause shall survive closing of title.**

2. PURCHASE PRICE. The total purchase price to be paid by Buyer will be $___________________ payable as follows:

Earnest money deposit (see below)	$ _____________________
Owner financing from seller (see below)	$ _____________________
New loan (see below)	$ _____________________
Subject to existing loans	$ _____________________
Cash balance due at closing	$ _____________________

Said price is subject to appraisal by buyer and/or agent of buyer's choice.

3. EARNEST MONEY. The buyer's earnest money shall be held in escrow by agent of buyer's choice. Upon default of this agreement, seller shall retain earnest money as his sole remedy without further recourse between the parties.

4. NEW LOAN. This agreement is contingent upon buyer's ability to obtain a new loan in the amount of $________________. Buyer is not required to accept any loan with interest rate exceeding ___________% amortized over __________years or pay any closing costs or points exceeding $____________. Buyer shall provide seller with written proof of a loan commitment on or before_______________, 20_____.

5. SELLER FINANCING. Buyer shall deliver a promissory note in the amount of $_________________. In case of default, recourse shall be against the property and there shall be no personal recourse against the borrower. As security for performance of the promissory note, buyer shall provide the seller a security deed which shall be subordinate to a new first mortgage not to exceed $_______________.

6. EXISTING LOAN. In the event part of the purchase price is to be satisfied by buyer taking subject to existing financing, buyer shall not be required to pay fees exceeding $______________ nor be required to show income or creditworthiness to the holder of said mortgage or deed of trust. Seller expressly agrees and understands that buyer is taking the property "subject to" such mortgages or deeds of trust, and is not expressly assuming responsibility for the underlying loans. If the actual loan balance of said loan is less than as stated herein, the purchase price shall be reduced to reflect the difference; if the actual loan balance is more than as stated herein, then buyer's required cash payment shall be reduced accordingly. Seller agrees to forfeit tax and insurance escrows held by said lender or its assigns.

7. SETTLEMENT.ISURABLE TITLE & CLOSING: Seller warrants that he/she is vested with full powers and authority to enter into this Agreement. If Seller has marketable & insurable title, no encroachments and property is not in a flood plain/zone, then this Agreement will be closed and the deed and other closing papers delivered within [ ]_________days after the acceptance of this agreement, & key copy given to Buyer, & all stipulations and conditions of this Agreement have been met, OR [ ] ________________days after the tenant/owner vacates the house and removes all property/debris & key copy given to Buyer & all stipulations and conditions of this Agreement have been met. In the event that this Agreement is unable to close on or before the above stated date, then Buyer or Seller may, by notice to the other party (notice must be received on or before the closing date) extend this Agreement's closing date up to seven (7) days from the above stated closing date.

If title is not marketable and insurable, title defects or encroachments will be cured at Seller's expense, and Buyer will close within 10 days of cure. If Seller cannot provide marketable/insurable title to Buyer by closing, then the Buyer can, at his sole discretion, either: (1) extend this Agreement or, (2) have Seller return to Buyer all earnest monies paid and fees incurred for curing title and preparing for closing including, but not limited to, surveys, attorneys fees and appraisal. Once these monies are returned to Buyer this Agreement will be null & void. Tenant and/or Seller must: (1) vacate and leases must be legally terminated prior to closing, (2)give 3 weeks advance notice to Buyer, when they're vacating/moving.

Buyer shall pay the following costs in transferring title: [ ] title insurance policy [ ] loan assumption [ ] transfer fee [ ] transfer taxes [ ] recording fees [ ] attorney closing charges [ ] hazard insurance premium [ ] mortgage insurance premium [ ] survey

The following Items will be prorated at closing: [ ] Mortgage insurance [ ] Property taxes [ ] PMI Insurance [ ] Hazard insurance [ ] Homeowner's association dues [ ] Rents [ ] Other ____________________________

The buyer may extend the closing date an additional THIRTY (30) days by paying the seller $___________________in cash. Buyer reserves the right to do a final inspection the day of closing.

8. POSSESSION. Seller shall surrender possession to the property in clean, debris free condition, and free of all personal items on or before __________, 20_____ ("possession date", In the event possession is not delivered at closing, buyer shall withhold proceeds from the sale in the amount of $__________ as security. Seller shall be liable for damages in the amount of $______ per day for each day the property is occupied beyond the possession date. This paragraph shall survive the closing of title.

9. INSPECTION. This agreement is subject to the final inspection and approval of the property by the buyer in writing on or before ______________, 20______ and is subject to a termite report from the buyer's pest control company that is acceptable to the buyer.

10. ACCESS. Buyer shall be entitled a key and be entitled to immediate access to show partners, lenders, inspectors and/or contractors prior to closing. Buyer may place a sign on the property prior to closing for prospective tenants, contractors and/or assigns.

11. This agreement is subject to the final inspection and approval of the condition of the property by the buyer and/or associates, assigns and/or nominees in writing before closing. This agreement is also contingent upon buyer's inspections, approval and acceptance of all paperwork, leases, appraisals, tenant histories and completed title work.

SPECIAL STIPULATIONS

_______________________________________ _________________ ____ _______________

Seller Date Buyer Date

_______________________________________ _________________ ____ _______________

Seller Date Buyer Date

AGREEMENT FOR PURCHASE & SALE OF REAL ESTATE
(Subject to Transaction)

AGREEMENT dated this ____ day of ________________ 20___, by and between ____

hereinafter "**Seller**", whose address is ____, and

____ hereinafter "**Buyer**" (or its assignee or nominee) whose address is

____.

1. **THE PROPERTY.** The Seller agrees to sell and Buyer agrees to buy the following property, located in the Bexar County, State of Texas, Lot ____, Block ____, CB/NCB __________ commonly known as ____.
The sale shall also include all windows shades, blinds, screens, shutters, electric and plumbing fixtures and ____________________
____.

2. **PURCHASE PRICE.** Buyer to pay the purchase price as follows (check all that applies):

☐ EARNEST DEPOSIT (Payable to the **Law Firm, Trust Account**) …….………….............…… $____________________

☐ CASH DOWN PAYMENT due at closing in the amount …………………..………….........…… $____________________

☐ TAKE TITLE SUBJECT TO AN EXISTING **FIRST** TRUST DEED NOTE
held by _________________________________ with an approximate unpaid amount of ....….. $____________________
payable $______________ monthly until paid, including interest not exceeding ____%.

☐ TAKE TITLE SUBJECT TO AN EXISTING **SECOND** TRUST DEED NOTE
held by ______________________ with an approximate unpaid amount of ………..……………..... $____________________
payable $______________ monthly until paid, including interest not exceeding ____%,

☐ A PROMISSORY NOTE in the principal amount of .... $____________________
For the Terms of the Note, see paragraph 10 below.

TOTAL PURCHASE PRICE IS THE AMOUNT OF ………..……………………………….…………….. $____________________

3. **FINANCING.** Buyer will be taking the property subject to deed(s) of trust existing on the property and the underlying existing loans and is not expressly assuming responsibility through a formal assumption of said loans. Commencing on ______________________, 20____, the Buyer shall pay all monthly obligations on the underlying loans and property taxes, assessments, insurance, and any other expenses related to the property.

If the actual loan balance of said loan is less than as stated herein, the purchase price shall be reduced to reflect the difference; if the actual loan balance is more than as stated herein, then Buyer's required cash payment shall be reduced accordingly. Seller agrees to waive any remaining balance of tax, MIP and insurance escrows, if any, held by the lender(s).

4. **CLOSING.** Closing will be held on or about ________________________, 20 ______, at a time and place at the ________________
____

Responsible for Closing Cost ☐ Seller ☐ Buyer ☐ Shared Between Parties Equally.

The following Items will be prorated at closing: ☐ Homeowner's association dues, ☐ Other ___________________________________
The Law Firm will not provide Title Insurance but will perform a title and tax search to determine what if any liens are affecting Title.
Title Insurance companies will not provide Title Insurance when the underlying mortgage is not paid off.

5. **POSSESION.** ☐ Seller shall surrender possession to the property on day of closing.
☐ In the event possession is not delivered at closing, buyer shall withhold proceeds from the sale in the amount of $ _________________ as security deposit (see attached Holdover Occupancy Agreement).

6. **ADDITIONAL PROVISIONS.**

- Seller is aware that this loan will not be satisfied in full at closing and may continue to appear on Seller's credit file. Seller will provide Buyer with loan payment booklets and written permission to contact the holders of any debt secured by the property. At closing, Seller to execute a Limited Power of Attorney pertaining to the subject property, a Deed to transfer title, and sign a 3-page Disclosure.
- Both Seller and Buyer acknowledge that the deed(s) of trust securing the property stated above may contain a "due on sale" provision giving the lender an option to call the loan immediately payable if all or any part of the Property is sold or transferred without satisfying the said loans.
- ____

7. **DEFAULT BY BUYER.** If Buyer fails to perform the agreements of this contract within the time set forth herein, Seller may retain, as liquidated damages and not as a penalty, all of the earnest money deposit specified in paragraph 2 above.

8. **DEFAULT BY SELLER.** If Seller fails to perform any of the agreements of this contract, Buyer shall be entitled to $5,000 for damages resulting from the breach of contract, or the Buyer may bring an action for specific performance.

9. **OFFER.** This is an offer to purchase the Property on the above terms and conditions. Unless this offer is signed by Seller and personally received by Buyer, by ___________, at ___ AM/PM, the offer shall be deemed revoked and the deposit shall be returned.

10. **OTHER TERMS**: ____

Buyer(s): ____, **Date**: ________________________ 20_____.

Email: ____ Phone #(s): ______________________________________

Seller(s): ____, **Date**: ________________________ 20_____.

Email: ____ Phone #(s): ______________________________________

Owner Financing Mortgage Contract

This agreement is entered into on the __________ day of _________________, 20____ between ____ (hereinafter "Owner") and ____ (hereinafter "Buyer") for the sale of the property located at ____ (hereinafter "property").

At all times the laws of the state in which the property is located govern this contract. This contract is not a sale contract for the property. A separate sale contract for the property must be entered into and executed according to the laws of the state in which the property is located.

Loan Terms

This contract establishes that Owner shall sell and Buyer shall buy the property and that Owner shall finance the balance of the purchase price for the property for Buyer after Buyer delivers a down payment.

The purchase price of the property is _____________________, as agreed to by the parties to this contract. This amount was agreed to after an appraisal of the property, which occurred on ________________________ and was conducted by ________________________________.

Buyer is/is not (circle one) obtaining financing for any portion of the purchase price of the property from a third party, such as a bank. Buyer must notify Owner of the amount of financing obtained from any third party and provide the name and contact information of the third party within 30 days of obtaining such financing.

The down payment amount of ________________ has been agreed to by the parties and is to be delivered no later than ________________________, 20_____. Failure to provide this down payment nullifies this contract in its entirety.

The amount that Owner will finance for Buyer for the sale of the property is ____________________ (hereinafter "Owner finance"). Owner shall carry the promissory note for the entire mortgage term for the amount identified as Owner finance.

Buyer has submitted a mortgage application to obtain this financing and Owner has approved Buyer's finances.

Financing for the mortgage is to last for a period of ________________ and carries an interest rate of _______________. This interest rate is/is not (circle one) flexible according to the

mortgage rate index chosen by the parties. The parties have chosen ______________________ as the mortgage rate index to govern this contract. Any changes to interest rate can be made solely by the Owner, but must be provided in writing no less than ________ days prior to the change coming into effect.

Payment for the mortgage is due monthly in the amount of _________________________. This amount does/does not (circle one) include taxes, insurance, and legal, state, and other fees associated with owning the property. Should this amount include these fees and should these fees change due to changes in rates being set by the governing party, such as the state tax authority, the parties will notify each other of any changes that are brought to their attention within 30 days.

Prepayment of all or a portion of the financing extended to Buyer is allowed and carries no penalties.

This agreement is secured by the home. Buyer's failure to pay the mortgage payment when due as described above entitles Owner to initiate foreclosure proceedings as allowed by state against Buyer. Owner has the right to repossess the property after the conclusion of foreclosure proceedings, as outlined and permitted by the laws of the state in which the property is located.

Loan Servicing

Owner will/will not (circle one) hire a loan servicing company to draw up the mortgage documents and handle the processing of payments. The selection of the servicing company is solely at the discretion of the Owner. Any fees charged by the chosen company for servicing the loan will be handled directly by the Owner. Owner reserves the right to hire a servicing company at any time. Notification of the choice of servicing company will be provided to the Owner no later than 30 days before payment should be sent to the servicing company.

Owner may change servicing companies at any time without giving prior notice to Owner. However, Owner must notify Buyer or have the new servicing company notify Buyer of any changes to choice of loan servicing company at least 30 days prior to the change in mailing address for monthly payment. Any fees incurred due to the Owner's failure to provide Buyer with notice, either directly or from the service company, and the Buyer's sending payment to the incorrect address shall be paid by Owner.

This contract is full in its entirety. Any additions must be made in writing and amended to this contract.

Entered into this __________ day of ________________________, 20_____.

____

Buyer

____

Owner

Notarized or executed according to governing state law this ______________ day of ____________________, 20____.

LEASE-OPTION

Contract for Deed

Prepared by: Agent ______________________________ | **Phone** ________________________
Broker ______________________________ | **Email** ________________________

NOTE: This form is not for use by an investor acquiring owner-occupied, one-to-four unit residential property in forclosure. [See **ft** Form 156]

DATE: _____________, 20______, at ____, California.

Items left blank or unchecked are not applicable. References to forms include their equivalent.

FACTS:

1. This lease agreement and option to purchase is entered into by Lessor/Optionor and Lessee/Optionee, regarding property situated in the City of ____________________, County of ________________ California, referred to as
____
____
Personal property, ☐ see attached Personal Property Inventory [See **ft** Form 256], _________________________

2. **This agreement is comprised of this three page form and the following checked attachments:**
   - ☐ Credit Application [See **ft** Form 302]
   - ☐ Residential Earthquake Hazards Report [See **ft** Form 315]
   - ☐ Occupant's Operating Expense Sheet [See **ft** Form 562]
   - ☐ Addendum — General Use [See **ft** Form 250]
   - ☐ Notice of Your Supplemental Property Tax Bill [See **ft** Form 317]
   - ☐ Agency Law Disclosure Statement [See **ft** Form 305]
   - ☐ Natural Hazard Disclosure Statement [See **ft** Form 314]
   - ☐ Financial Disclosure Statement [See **ft** Form 309]
   - ☐ Brokerage Fee Addendum [See **ft** Form 273]
   - ☐ Lead-Based Paint Disclosure [See **ft** Form 313]
   - ☐ Condition of Property Disclosure [See **ft** Form 304]

3. **Term of Lease:**
This lease commences _____________, 20______ and continues until _____________, 20______.
   3.1 The lease terminates on the last day of the term without further notice.
   3.2 If Lessee holds over, Lessee to be liable for rent at the daily rate of $_______________.

4. **Rent:** Lessee to pay, in advance, a base monthly rent of $_______________ due on the ______ day of each calendar month.
   4.1 Rent to be paid by: ☐ personal check made payable to _______________, or ☐ ____________________.
   4.2 Rent to be tendered by: ☐ mail, or ☐ personal delivery.
   4.3 Lessee to pay a late charge of six percent of all rent amounts due in the event rent is not received within ten days of the due date.
   4.4 Lessee to pay $_______________ for each rent check returned for insufficient funds and thereafter pay rent by cash or cashier's check.

5. **Additional Rent:** In addition to the base monthly rent, Lessee to pay additional monthly rent equal to the increased costs incurred by Lessor after entering into this lease-option, due to:
   a. ☐ variable/adjustable interest rate on existing loans secured by the property;
   b. ☐ variable/adjustable monthly principal or acceleration of existing loans secured by the property;
   c. ☐ property taxes on the property;
   d. ☐ fire and extended coverage insurance premiums on the property;
   e. ☐ any Homeowners' Association (HOA) assessments;
   f. ☐ any special or improvement assessments on the property; and
   g. ☐ any other expenditures required of Lessor to protect his interest.

   5.1 The additional monthly rent shall be the actual monthly cost increase and 1/12th of any annual cost increase.
   5.2 The additional monthly rent is due on, or beginning with, the monthly rent payment next due following notice to Lessee by Lessor.

6. **Utilities:** Lessee shall pay all costs of public utilities to the property, including any required deposits, installation, or service fees.

7. **Maintenance of Premises:** Lessee agrees to maintain and perform all necessary repairs to the property during the lease term at his sole expense.

8. **Insurance:** Lessee shall maintain at his sole expense, naming Lessor as an additional insured:
   8.1 ☐ A standard fire insurance policy with extended coverage, vandalism and malicious mischief endorsements, fully covering the replacement cost of all structures on the property during the entire term of the lease; and
   8.2 ☐ Public liability and property damage insurance with a single combined liability limit of at least $300,000 and property damage limits of at least $100,000, insuring against all liability of Lessee arising out of Lessee's use or occupancy of the premises.
9. **Use of the Property:** The property is to be used only as a private residence occupied by Lessee and for no other purpose. Lessee shall comply with all laws regarding the use of the property, and shall not allow any waste or nuisance to occur on the property.
10. **Assignment and Subletting:** Lessee shall not assign this lease, nor sublet or encumber any interest in the property without the prior written consent of Lessor. Any transfer of an interest in the property by Lessee without the prior written consent of Lessor shall, at the option of Lessor, terminate this lease and call for payment of all sums due.
11. **Waiver of Damage:** Lessee releases Lessor from liability for loss or damage to Lessee or any property of Lessee caused by water leakage, breaking pipes, theft, vandalism, or any other cause beyond the reasonable control of Lessor.
12. **Hold Harmless:** Lessee shall indemnify Lessor from liability, damages, and/or expenses arising from the death or injury of any person, including Lessee, or from the damage or destruction of any property, including property owned by Lessee, caused or allegedly caused by some condition of the property, or some act or omission of Lessee or any other person.

OPTION TO PURCHASE:

13. **Option Money:** Optionor acknowledges receipt of option money in the amount of $_______________, given in consideration for this option to purchase the property leased.
14. **Option Period:** Optionor hereby grants to Optionee the irrevocable option to purchase the Optionor's right, title and interest in the property under the sales terms for a period commencing with the acceptance of this option and expiring on termination of the lease.
15. **Exercise of Option:** Optionee may exercise this option during the option period by:
   15.1 Preparing and signing escrow instructions with ____;
   15.2 Depositing cash in Escrow of $_______________; and
   15.3 Delivering a certified copy of the signed escrow instructions to Optionor within the option period in person or by certified mail.
16. **Delivery of Title:** Within _____ days after exercise, Optionor and Optionee shall place in Escrow all documents and instruments necessary to close.
17. **Sale Terms:** The purchase price is $______________, payable:
   17.1 ☐ In cash.
   17.2 ☐ Down payment in the amount of $_______________.
   17.3 The cash price or down payment to be credited for $_______________ of option money paid, and for ______%, or $_______________, of each payment of base monthly rent.
   17.4 ☐ Take title subject to, or ☐ Assume, the existing trust deed note with an approximate unpaid balance of $_____________, currently payable $______________ monthly, including principal and interest at ______%, ☐ adjustable, monthly impounds being an additional $_______________.
   17.5 ☐ Take title subject to, or ☐ Assume, a trust deed note with a principal balance of $_______________, currently payable $_______________ monthly, including principal and interest at ______%, due _____________.
   17.6 Loan balance differences to be adjusted in: ☐ cash, ☐ §17.8 Note, or ☐ price.
   17.7 ☐ Assume bonds or assessment liens of record in the approximate amount of $_______________.
   17.8 A Note for the balance of the purchase price in the amount of $_______________, to be executed by Buyer in favor of Seller and secured by a trust deed on the property, payable $_______________ monthly, or more, commencing one month after closing, including interest at ______%, due _______________ years after closing.
      a. The Note and Trust Deed shall not contain provisions for due-on clauses, prepayment penalties, or late charges.
      b. ☐ Optionee to provide a Request for Notice of Default and Notice of Delinquency to senior encumbrancers. [See **ft** Form 412]
      c. ☐ The Note is an All-Inclusive Trust Deed Note.
      d. As additional security, Optionee to execute a security agreement and file a UCC-1 financing statement on any personal property included in the price.

18. General Provisions:

18.1 Optionee's transfer of any interest in this option terminates the option.

18.2 Before any party to this agreement files an action on a dispute arising out of this agreement which remains unresolved after 30 days of informal negotiations, the parties agree to enter into non-binding mediation administered by a neutral dispute resolution organization and undertake a good faith effort during mediation to settle the dispute.

18.3 The prevailing party in any action on a dispute shall be entitled to attorney fees and costs, unless they file an action without first offering to enter into mediation to resolve the dispute.

19. Power of Sale: Should this document be characterized as a security device, on default of rental payments or failure to exercise the option, the Lessor/Optionor may call all sums due and elect to proceed with a power of sale by a trustee substituted under Civil Code §2934(a), noticed and held in accordance with Civil Code §§2924 et seq.

20. Lessor/Optionor Default: Should the Lessor/Optionor default on any obligation impairing the Lessee/Optionee's interest under this agreement, Lessee/Optionee may cure the default and demand reimbursement from the Lessor/Optionor of the amount advanced, and if not paid, deduct the amount paid from periodic payments and the purchase price due the Lessor/Optionor.

21. Expiration of Option: This option to purchase shall be deemed expired if not exercised during the option period, and if not previously terminated, shall automatically expire/terminate on ______________, 20______.

22. Brokerage Fee: Optionor to pay brokerage fees as follows:

22.1 ______% of the option money on receipt; plus

22.2 ______% of each month's base rent on receipt; and

22.3 $________________ on exercise of the option.

22.4 Optionee's Broker and Optionor's Broker, respectively, to share the brokerage fee ______:______.

23. ____
____
____

Lessee/Optionee's Broker: ___________________________
By: ____
Is the agent of: ☐ Lessee/Optionee exclusively, or ☐ both Parties

Lessor/Optionor's Broker: ___________________________
By: ____
Is the agent of: ☐ Lessor/Optionor exclusively, or ☐ both Parties

I agree to the terms stated above.
☐ See attached Signature Page Addendum. [**ft** Form 251]
Date: ______________, 20______
Lessee/Optionee: ___________________________________
Signature: ____
Lessee/Optionee: ___________________________________
Signature: ____
Address: ____
____
Phone: ____
Fax: ____
Email: ____

I agree to the terms stated above.
☐ See attached Signature Page Addendum. [**ft** Form 251]
Date: ______________, 20______
Lessor/Optionor: ___________________________________
Signature: ____
Lessor/Optionor: ___________________________________
Signature: ____
Address: ____
____
Phone: ____
Fax: ____
Email: ____

RESIDENTIAL LEASE and OPTION TO PURCHASE AGREEMENT

BUYER/TENANT: ______________________ and/or Assigns. Date: __________

SELLER/LANDLORD: ____

PROPERTY ADDRESS: ____

RESIDENTIAL LEASE

1) **Rent**: $_____________ per month
2) **Lease Term**: _____ months, beginning ______________ and ending ____________.
3) **Maintenance**: Buyer/Tenant will be responsible for all maintenance and repairs of the property, not to exceed $500 per incident.
4) **Sub-Lease:** Buyer/Tenant has the right to sub-lease this property with written consent by the Seller / Landlord, and this shall not be unreasonably withheld.

OPTION TO PURCHASE

1) **Purchase Price**: $ ________________
2) **Option Period**: ____ months, beginning ______________ and ending ______________
3) **Option Consideration**: $10 - All Option Consideration will be credited in full toward the purchase of the property.
4) **Rent Credits**: Buyer/Tenant will be credited $ 0 per month toward the purchase.
5) **Closing Costs**: Buyer/Tenant will pay all allowable closing costs.
6) **Expiration**: If Buyer/Tenant doesn't find another Tenant-Buyer to live in the home by ______________, this contract will expire.
7) **Inspection**: This offer is contingent upon physical inspection of property and subsequent completion of a more formal and signed Residential Lease with Option to Purchase Agreement.
8) **Non-Exclusive** – This agreement is non-exclusive and can be canceled anytime by either party.

Assignable – This Agreement is assignable.

No Agency – Buyer/Tenant ____is, or ____ is not, a licensed real estate agent in the State of ____, and does not represent the Seller / Landlord.

X____________________________ X ______________________________
Seller/Landlord Date Buyer/Tenant Date

X____________________________ X ______________________________
Seller/Landlord Date Buyer/Tenant Date

Agreement to Assign Contract for Sale and Purchase

Subject Property: ____

Legal Description: ____

This agreement is made between ____________________________________ (ASSIGNOR) and ____________________________________ (ASSIGNEE) regarding purchase of the above referenced SUBJECT PROPERTY.

Whereas ____________________________________ (BUYER) has entered into a Purchase and Sales Agreement with ____________________________________ (SELLER) for the purchase of SUBJECT PROPERTY, and whereas BUYER wishes to assign its rights, interests and obligations in the Purchase and Sales Agreement, it is hereby agreed between ASSIGNOR and ASSIGNEE as follows:

1. ASSIGNEE shall pay ASSIGNOR a NON-REFUNDABLE assignment fee of $________ (payable $_______ with signing of contract and balance at close).

2. Assignee's inspection period shall expire upon execution of this Assignment. ASSIGNEE accepts all terms and conditions of the contract for Sale and Purchase between BUYER and SELLER in its entirety.

3. ASSIGNEE acknowledges receipt of legible copies of the original Contract for Sale and Purchase in its entirety including all Addendum(s) associated with this transaction.

4. Additional terms and conditions of this Assignment are as follows:

    a) This assignment contract is non-assignable without the express written consent of the ASSIGNOR. No changes to the Purchase Contract can be made without written Consent of BUYER.

    b) Disclosures and Acknowledgement:

        i) ASSIGNOR and affiliated associates make no warranty, expressed or implied, regarding inspection reports or other reports provided to ASSIGNEE by ASSIGNOR or third parties concerning this property.

        ii) ASSIGNEE acknowledges they are conducting a transaction dealing directly with ASSIGNOR for the purchase of SUBJECT PROPERTY. ASSIGNEE is not relying upon or being represented by a REAL ESTATE BROKERAGE in this transaction.

AGREED AND ACCEPTED

______________________	__________	______________________	__________
Assignee	Date	Assignor	Date
______________________		______________________	
Print Name		Print Name	
______________________	__________	______________________	__________
Assignee	Date	Assignor	Date
______________________		______________________	
Print Name		Print Name	

Assignment of Contract

____ (Wholesaler) assigns to ____ (Investor) the Purchase Contract on ____ between ____ (Wholesaler) and ____ (Seller) dated _________________________________.

The Purchase Contract is being assigned for the amount of $________________ (Assignment Fee), to be paid at closing.

Upon execution of this Assignment agreement, Investor hereby agrees to pay Wholesaler non-refundable earnest money in the amount of $_____________ (Earnest Money). Earnest money to be credited towards agreed upon Assignment Fee at closing. Investor accepts all rights, obligations and responsibilities of Purchase Contract executed by Wholesaler and Seller of said property.

Investor Shall Close on or before ____________________, __________.

Wholesaler: _________________________ dated _______________
(Assignor)

Investor: _________________________ dated _______________
(Assignee)

CONTRACT FOR THE SALE & PURCHASE OF REAL ESTATE

PARTIES: Owner of Record

Their heir(s), successors, administrators and assigns, as seller who's address is ____

and ____ and /or assigns, their heirs, successors, administrators and assigns, as Buyer, whose mailing address is:

WITNESSETH: That Seller, in consideration of the payments, covenants, agreements and conditions herein contained which on the part of the Buyer are to be made, done and performed, has this day sold, upon the conditions hereinafter recited, to the Buyer the real property legally described as:

SUBJECT PROPERTY: ____, hereinafter the property,

LEGAL DESCRIPTION: ____

____

SALE PRICE: $____________________

SUBJECT TO: ____ $____________________

____

EQUITY: $____________________

PAYABLE: ____

____

____

____

EXISTING MORTGAGE (S): Existing financing on subject property will be current in all payments of principal, interest, late charges and escrow amounts required by the mortgagee. Escrow balance has been calculated into the price and will transfer to the Buyer along with title. Buyer will take title subject to his debt.

EXPENSES:

INSURANCE: As consideration for this purchase the Seller will assign all insurance policies on the property to the Buyer and Seller will grant a limited power of attorney to the Buyer to deal with the lender(s) and insurance provider(s).

RISK OF LOSS: If subject property is damaged prior to transfer of title, Buyer has the option of accepting any insurance proceeds with title to the property in "as is" condition or of canceling this contract and accepting the return of the deposit.

PRORATIONS: Real property taxes will be prorated based on the current year's tax without allowance for discounts, including homestead or other exemptions. Rents will be current and be prorated as of the date title transfers.

DEFECTS: Seller warrants subject property to be free from hazardous substances and from violation of any zoning, environmental, building, health or other governmental codes or ordinances. Seller further warrants that there is no material or other known defects or facts regarding this property, which would adversely affect the value of said property.

NO JUDGMENTS: Seller warrants that there are no judgments threatening the equity in subject property, and that there is no bankruptcy pending or contemplated by any titleholder. Seller will not further encumber the property and an affidavit may be recorded at Buyer's expense putting the public on notice that the closing of this contract will extinguish liens and encumbrances hereafter recorded.

RADON GAS & LEAD PAINT: Lead based paint and Radon, a naturally occurring radioactive gas that may present health risks to persons who are exposed to it over time, may exist in this property. Buyer may obtain a risk assessment of "the property" by licensed inspectors. Dangerous circumstances and the conditions, which caused said circumstances will be corrected at the Seller's expense before title transfers.

POSSESSION: Possession of the property and occupancy (tenants excepted), with all keys and garage door openers, will be delivered to the Buyer when title transfers. Leases and security deposit will transfer to the Buyer with title.

INSPECTIONS: This contract is contingent upon the Buyer's inspection and approval of the property prior to transfer of title. Seller agrees to provide access to the Buyer's representatives prior to transfer of title for inspection, repairs and to market the property.

ACCEPTANCE: This instrument will become a binding contract when accepted by the Seller and signed by both Buyer and Seller. If it is not accepted and signed by the Seller prior to ________________, this contract shall be void.

DEPOSIT: Upon acceptance Buyer will place in escrow an earnest money deposit of ________________ with ____ which will be part of the cash paid to the Seller when title transfers. This deposit will be returned to the Buyer if title does not transfer in accordance with this agreement and said title company will close this transaction.

SELLER: Agrees that the buyer may place signs and show the property immediately upon acceptance of this contract by both parties.

CLOSING: Closing will take place on or before: ________________ at ____. Subject to a _____ day period in which the buyer/seller shall be permitted to clear any title problems.

OTHER AGREEMENTS: ____

____

____

____

TIME IS OF THE ESSENCE with this agreement. Each contingency contained herein shall be satisfied according to its terms by the closing date or this contract extends to provide time for satisfaction of said contingencies. Each party shall diligently pursue the completion of this transaction. Each warranty herein made survives the closing of this transaction.

PROHIBITION: This agreement establishes a prohibition against transfer, conveyance or encumbrance to the property.

______________________ Seller	________ Date	______________________ Buyer	________ Date
______________________ Print Name		______________________ Print Name	
______________________ Seller	________ Date	______________________ Buyer	________ Date
______________________ Print Name		______________________ Print Name	

CONTRACT FOR THE SALE & PURCHASE OF REAL ESTATE

PARTIES: Owner of Record

Their heir(s), successors, administrators and assigns, as seller who's address is ____

and ____ and /or assigns, their heirs, successors, administrators and assigns, as Buyer, whose mailing address is:

WITNESSETH: That Seller, in consideration of the payments, covenants, agreements and conditions herein contained which on the part of the Buyer are to be made, done and performed, has this day sold, upon the conditions hereinafter recited, to the Buyer the real property legally described as:

SUBJECT PROPERTY: ____, hereinafter the property,

LEGAL DESCRIPTION: ____

____

SALE PRICE: $__________________

SUBJECT TO: ____ $__________________

____

EQUITY: $__________________

PAYABLE: ____

____

____

____

EXISTING MORTGAGE (S): Existing financing on subject property will be current in all payments of principal, interest, late charges and escrow amounts required by the mortgagee. Escrow balance has been calculated into the price and will transfer to the Buyer along with title. Buyer will take title subject to his debt.

EXPENSES:

INSURANCE: As consideration for this purchase the Seller will assign all insurance policies on the property to the Buyer and Seller will grant a limited power of attorney to the Buyer to deal with the lender(s) and insurance provider(s).

RISK OF LOSS: If subject property is damaged prior to transfer of title, Buyer has the option of accepting any insurance proceeds with title to the property in "as is" condition or of canceling this contract and accepting the return of the deposit.

PRORATIONS: Real property taxes will be prorated based on the current year's tax without allowance for discounts, including homestead or other exemptions. Rents will be current and be prorated as of the date title transfers.

DEFECTS: Seller warrants subject property to be free from hazardous substances and from violation of any zoning, environmental, building, health or other governmental codes or ordinances. Seller further warrants that there is no material or other known defects or facts regarding this property, which would adversely affect the value of said property.

NO JUDGMENTS: Seller warrants that there are no judgments threatening the equity in subject property, and that there is no bankruptcy pending or contemplated by any titleholder. Seller will not further encumber the property and an affidavit may be recorded at Buyer's expense putting the public on notice that the closing of this contract will extinguish liens and encumbrances hereafter recorded.

RADON GAS & LEAD PAINT: Lead based paint and Radon, a naturally occurring radioactive gas that may present health risks to persons who are exposed to it over time, may exist in this property. Buyer may obtain a risk assessment of "the property" by licensed inspectors. Dangerous circumstances and the conditions, which caused said circumstances will be corrected at the Seller's expense before title transfers.

POSSESSION: Possession of the property and occupancy (tenants excepted), with all keys and garage door openers, will be delivered to the Buyer when title transfers. Leases and security deposit will transfer to the Buyer with title.

INSPECTIONS: This contract is contingent upon the Buyer's inspection and approval of the property prior to transfer of title. Seller agrees to provide access to the Buyer's representatives prior to transfer of title for inspection, repairs and to market the property.

ACCEPTANCE: This instrument will become a binding contract when accepted by the Seller and signed by both Buyer and Seller. If it is not accepted and signed by the Seller prior to ________________, this contract shall be void.

DEPOSIT: Upon acceptance Buyer will place in escrow an earnest money deposit of ________________ with ____ which will be part of the cash paid to the Seller when title transfers. This deposit will be returned to the Buyer if title does not transfer in accordance with this agreement and said title company will close this transaction.

SELLER: Agrees that the buyer may place signs and show the property immediately upon acceptance of this contract by both parties.

CLOSING: Closing will take place on or before: ________________ at ____. Subject to a _____ day period in which the buyer/seller shall be permitted to clear any title problems.

OTHER AGREEMENTS: ____

____

____

____

TIME IS OF THE ESSENCE with this agreement. Each contingency contained herein shall be satisfied according to its terms by the closing date or this contract extends to provide time for satisfaction of said contingencies. Each party shall diligently pursue the completion of this transaction. Each warranty herein made survives the closing of this transaction.

PROHIBITION: This agreement establishes a prohibition against transfer, conveyance or encumbrance to the property.

______________________ Seller	________ Date	______________________ Buyer	________ Date
______________________ Print Name		______________________ Print Name	
______________________ Seller	________ Date	______________________ Buyer	________ Date
______________________ Print Name		______________________ Print Name	

Agreement to Assign Contract for Sale and Purchase

Subject Property: ____

Legal Description: ____

This agreement is made between ___________________________________ (ASSIGNOR) and ___________________________________ (ASSIGNEE) regarding purchase of the above referenced SUBJECT PROPERTY.

Whereas ___________________________________ (BUYER) has entered into a Purchase and Sales Agreement with ___________________________________ (SELLER) for the purchase of SUBJECT PROPERTY, and whereas BUYER wishes to assign its rights, interests and obligations in the Purchase and Sales Agreement, it is hereby agreed between ASSIGNOR and ASSIGNEE as follows:

1. ASSIGNEE shall pay ASSIGNOR a NON-REFUNDABLE assignment fee of $________ (payable $_______ with signing of contract and balance at close).

2. Assignee's inspection period shall expire upon execution of this Assignment. ASSIGNEE accepts all terms and conditions of the contract for Sale and Purchase between BUYER and SELLER in its entirety.

3. ASSIGNEE acknowledges receipt of legible copies of the original Contract for Sale and Purchase in its entirety including all Addendum(s) associated with this transaction.

4. Additional terms and conditions of this Assignment are as follows:

   a) This assignment contract is non-assignable without the express written consent of the ASSIGNOR. No changes to the Purchase Contract can be made without written Consent of BUYER.

   b) Disclosures and Acknowledgement:

      i) ASSIGNOR and affiliated associates make no warranty, expressed or implied, regarding inspection reports or other reports provided to ASSIGNEE by ASSIGNOR or third parties concerning this property.

      ii) ASSIGNEE acknowledges they are conducting a transaction dealing directly with ASSIGNOR for the purchase of SUBJECT PROPERTY. ASSIGNEE is not relying upon or being represented by a REAL ESTATE BROKERAGE in this transaction.

AGREED AND ACCEPTED

______________________	__________	______________________	__________
Assignee	Date	Assignor	Date
______________________		______________________	
Print Name		Print Name	
______________________	__________	______________________	__________
Assignee	Date	Assignor	Date
______________________		______________________	
Print Name		Print Name	

"Subject To" Info Sheet

Property Address: ____

Borrower's Name: ___________________________ SS # ________________

Borrower's Name: ___________________________ SS # ________________

Borrower's Address: ____

Borrower's Phone #'s: H: _________________ O: _______________________

Lending Institution Name: _______________________ Loan #: ____________

Customer Service Address: ____

Phone Number: ________________________

Principal Balance: $___________________________

Amount in Arrearage: $_________________________

Monthly Payment: $_________________ [] PI or [] PITI

Interest Rate: _______________%____

Start Date of Loan:_________________

- **Copy of last statement or coupon book**
- **Copy of the Promissory Note**
- **Copy of the Mortgage**

PROPERTY OFFER WORKSHEET

- Note this is used for properties making all-cash offers and *NOT* properties with underlying mortgages.

1) **Retail repaired value(RRV)**____________________________

2) **% of retail repaired value your buyers will pay for property in inclusive of repairs**_______________________

3) **Closing Costs Your Buyer Will Pay**_______________________________ I usually I estimate 1% of RRV which covers attorney fee, title search, recording fees and miscellaneous costs. Points paid from your buyer on their financing may be as much as 3-5% but is not accounted for here. That is one cost that my buyers either pay for out of pocket or some can roll on over into their loan if they have high enough LTV loan to budget in. Rare for your buyer not to have to come up with no money out of pocket on a deal. If they can, then you're probably selling too cheap. Your buyer needs to come to the closing table with something monetarily.

4) **Minus the repair estimate**________________________

5) **Minus "Murphy's Law"**___________________________This will be be 3% of the retail repaired value. Basically this is a catch-all for maybe something on the repairs you missed or "fudge" factor on comps, closing costs, etc…

6) **Minus Your Profit**!__________I usually try to get 5-10% of the RRV

7) **Wholesale Offer**________________ RRV times % of repaired retail value your buyer will pay minus:
    a) Closing Costs----1% of RRV
    b) Repair Estimate----straight amount and no percentage
    c) "Murphy's Law" factor---3% of RRV
    d) Your Profit----factor in 10% of RRV as your profit to begin with but *least* amount you should accept is 5% of RRV. Making offers this way leaves your room for negotiation. Always start with 10% because if you don't, then you really have no room to concede in negotiations.

SUBJECT TO PRE-CLOSING CHECKLIST

Thank you for choosing Tipton Law Firm, PLLC to close your Subject To transaction. In order to start processing your transaction, please ensure that the following documents and forms are filled out and returned at the time you submit your contract.

- ☐ Executed Purchase & Sales Agreement (you may use the one included in the pre-closing package or a contract of your choice)
- ☐ Current Mortgage Statement
- ☐ Payoff/Reinstatement Figures if applicable
- ☐ Obtain all HOA information, transfer fees, balances and dues (we can submit a request for a transfer package for you, but will need the HOA's information)
- ☐ Fully executed Pre-Closing Package (pre-closing disclosures, Texas 5.016 Disclosure, Authorization to Release Information, Seller Info Sheet, and 1099-S Information Sheet)

Seller Info:

Name(s): ___________________________________

Phone: ___________________________________

Email: ___________________________________

Address: ___________________________________

Buyer Info:

Name(s): ___________________________________

Phone: ___________________________________

Email: ___________________________________

Address: ___________________________________

The above information is **required** in order to process your transaction. Failure to provide the above necessary information may cause a delay in your closing.

AGREEMENT FOR PURCHASE & SALE OF REAL ESTATE
(Subject to Transaction)

AGREEMENT dated this ____ day of ________________ 20___, by and between ____ hereinafter "**Seller**", whose address is ____, and ____ hereinafter "**Buyer**" (or its assignee or nominee) whose address is ____.

1. **THE PROPERTY.** The Seller agrees to sell and Buyer agrees to buy the following property, located in the Bexar County, State of Texas, Lot ____, Block ____, CB/NCB __________ commonly known as ____.
The sale shall also include all windows shades, blinds, screens, shutters, electric and plumbing fixtures and ____________________ ____.

2. **PURCHASE PRICE.** Buyer to pay the purchase price as follows (check all that applies):

☐ CASH DOWN PAYMENT due at closing in the amount…………………… …..……….…….…… $___________________

☐ REINSTATEMENT TO LENDER/OTHER PMT due at closing in the amount ……….........…… $___________________

☐ TAKE TITLE SUBJECT TO AN EXISTING **FIRST** TRUST DEED NOTE
held by _________________________________ with an approximate unpaid amount of ....….. $___________________
payable $______________ monthly until paid, including interest not exceeding ____%.

☐ TAKE TITLE SUBJECT TO AN EXISTING **SECOND** TRUST DEED NOTE
held by ______________________ with an approximate unpaid amount of ………..…………….... $___________________
payable $______________ monthly until paid, including interest not exceeding ____%,

☐ A PROMISSORY NOTE in the principal amount of .... $___________________
For the Terms of the Note, see paragraph 10 below.

TOTAL PURCHASE PRICE IS THE AMOUNT OF ………..…………………………….…………….. $___________________

Earnest Money: Earnest Money will be delivered and payable to Tipton Law Firm, PLLC in the amount of $_________________, within ___ days of signing this contract. Earnest Money will be credited to the sales price and/or closing costs.

3. **FINANCING.** Buyer will be taking the property subject to deed(s) of trust existing on the property and the underlying existing loans and is not expressly assuming responsibility through a formal assumption of said loans. Commencing on _____________________, 20____, the Buyer shall pay all monthly obligations on the underlying loans and property taxes, assessments, insurance, and any other expenses related to the property.

If the actual loan balance of said loan is less than as stated herein, the purchase price shall be reduced to reflect the difference; if the actual loan balance is more than as stated herein, then Buyer's required cash payment shall be reduced accordingly. Seller agrees to waive any remaining balance of tax, MIP and insurance escrows, if any, held by the lender(s).

4. **CLOSING.** Closing will be held on or about ________________________, 20 ______, at a time and place at the **Tipton Law Firm.**

Responsible for Closing Cost ☐ Seller ☐ Buyer ☐ Shared Between Parties Equally.
The following Items will be prorated at closing: ☐ Homeowner's association dues, ☐ Other _________________________________
The Law Firm will not provide Title Insurance but will perform a title and tax search to determine what if any liens are affecting Title.
Title Insurance companies will not provide Title Insurance when the underlying mortgage is not paid off.

5. **POSSESION.** ☐ Seller shall surrender possession to the property on day of closing.
☐ In the event possession is not delivered at closing, buyer shall withhold proceeds from the sale in the amount of $ _________________ as security deposit (see attached Holdover Occupancy Agreement).

6. **ADDITIONAL PROVISIONS.**

- Seller is aware that this loan will not be satisfied in full at closing and may continue to appear on Seller's credit file. Seller will provide Buyer with loan payment booklets and written permission to contact the holders of any debt secured by the property. At closing, Seller to execute a Limited Power of Attorney pertaining to the subject property, a Deed to transfer title, and sign a 3-page Disclosure.
- Both Seller and Buyer acknowledge that the deed(s) of trust securing the property stated above may contain a "due on sale" provision giving the lender an option to call the loan immediately payable if all or any part of the Property is sold or transferred without satisfying the said loans.
- ____

7. **DEFAULT BY BUYER.** If Buyer fails to perform the agreements of this contract within the time set forth herein, Seller may retain, as liquidated damages and not as a penalty, all of the earnest money deposit specified in paragraph 2 above.

8. **DEFAULT BY SELLER.** If Seller fails to perform any of the agreements of this contract, Buyer shall be entitled to $5,000 for damages resulting from the breach of contract, or the Buyer may bring an action for specific performance.

9. **OFFER.** This is an offer to purchase the Property on the above terms and conditions. Unless this offer is signed by Seller and personally received by Buyer, by ___________, at ___ AM/PM, the offer shall be deemed revoked and the deposit shall be returned.

10. **OTHER TERMS**: ____

Buyer(s): ____, **Date**: ________________________ 20_____.

Email**:** ____ Phone #(s)**:** ____________________________________

Seller(s): ____, **Date**: ________________________ 20_____.

Email**:** ____ Phone #(s): ____________________________________

Tipton Law Firm, PLLC

INTERMEDIARY ACKNOWLEDGEMENT

Property Address:____

The parties to this transaction have requested that Tipton Law Firm, PLLC ("The Firm") draft the documents for a Subject To real estate closing. For this particular closing I will be acting as an intermediary only and will not be an advocate for either side. This role is different from the traditional one of an attorney; I must remain impartial.

Being an intermediary means that any information disclosed by you to me during this representation will not be protected by attorney-client privilege in a subsequent legal proceeding asserted by or against one of you involving the other.

By using Tipton Law Firm, PLLC as an intermediary to document the agreement between the parties, both parties agree and acknowledge that The Firm cannot and will not give any legal advice to either side. While The Firm can answer general questions regarding the transaction and meaning behind the documents, The Firm will not advise either party to the transaction as to whether this transaction is right for them, or any other issue or question that is not general in nature. Both parties should seek the advice of their own counsel should they need any legal advice regarding the above transaction.

We, the undersigned, hereby acknowledge and agree that we have entered into this transaction, being fully advised of the possible conflicts and/or problems that may arise from using an intermediary, and other possible issues that are not stated above, and forever more INDEMNIFY AND HOLD HARMLESS TIPTON LAW FIRM, PLLC, ALL OF ITS EMPLOYEES, AND ALLISON K. TIPTON INDIVIDUALLY FROM ANY LIABILITY WHATSOVER.

Sellers:

___________________________________ ________________
Date

___________________________________ ________________
Date

Buyers:

___________________________________ ________________
Date

___________________________________ ________________
Date

Tipton Law Firm PLLC, Allison K. Tipton, Attorney
PO Box 690876, San Antonio, Texas 78269 P (210) 963-5288,
F (210) 963-5153 www.tiptonlawfirmsa.com, E allison@tiptonlawfirmsa.com

PRE CLOSING DISCLOSURES

I/we, ____ (Seller), on this ______**day of** _______________ **20**____, have been presented with a contract to sell the property commonly known as ____ (property) to ____ **and/or assigns** (Buyers) and or assigns. I further state as follows:

______1. **UNDERLYING MORTGAGE NOT PAID OFF**: I full understand and acknowledge that under the terms of the Contract presented to me that my underlying mortgage will **NOT** be paid off at closing. I agree and acknowledge that this is a "Subject To Transaction" and that the loan could stay in my name for the duration of the loan term.

______2. **NOT A LOAN ASSUMPTION**: I acknowledge and understand fully that this transaction is not an official assumption of my loan. My loan will remain in my name and could remain in my name for the duration of the loan.

______3. **LOAN IN NAME**: I understand that the loan for this property will stay in my name and it could stay in my name until the loan is matured. The Buyer has the right to keep the loan in my name for the length of the remaining loan time. This might affect my ability to secure additional credit at some future time.

______4. **DUE ON SALE**: I fully agree and acknowledge that a transfer of title may be against my loan terms. I understand that there is a possibility that my loan may be called 'due' by the lender upon transfer of title and that the Buyer is not guaranteeing that they will pay the loan off if this happens. The Buyer has no intentions of defaulting on the loan or harming the seller's credit. The Buyer cannot guarantee that the loan will not be called due when this transfer takes place. The Buyer will, however, in good faith, assist the seller in trying to figure out a solution with the mortgage company if this situated were to arise. The Buyer will attempt in good faith to negotiate any secondary liens or additional judgments.

______5. **DEED OF TRUST TO SECURE PAYMENT**: I understand and acknowledge that I may request that buyer sign a Deed of Trust to Secure payment at closing. I understand and acknowledge that if Buyer and I agree to not have a Deed of Trust to Secure Payment, my only recourse for nonpayment of my loan by buyer is to sue for breach of contract.

______6. **LEGAL COUNSEL ADVISED**: I acknowledge I am being advised to seek independent legal counsel to review the Offer to Purchase/Agreement.

______7. **CLOSING LAW FIRM DOES NOT REPRESENT EITHER PARTY**: I acknowledge and understand that this transaction will close through an attorney's office, and that Attorney will be acting in an intermediary capacity and will not be able to give me legal advice. I acknowledge and understand that should I need legal advice, I should seek out my own independent counsel.

______8. **NO OTHER PROMISES**: I have not been promised anything other than what is described in the Contract I have been presented with. There are no unresolved issues, no other agreements, nor are there other terms not disclosed in the Contract.

______9. **FULLY INFORMED AND NOT CONFUSED**: I have signed the Contract being fully informed with a sufficient understanding of all terms and conditions contained therein. I am not confused about any aspect of The Contract.

______10. **ACCEPTANCE**: I have reviewed the terms and conditions contained in the contract and have accepted Buyer's offer to purchase the property.

Acknowledged by:

___________________________________ ___________
Date
(Seller)

___________________________________ ___________
Date
(Seller)

___________________________________ ___________
Date
(Buyer)

___________________________________ ___________
Date
(Buyer)

NOTICE OF CONVEYANCE OF RESIDENTIAL PROPERTY ENCUMBERED BY LIEN PURSUANT TO TEXAS PROPERTY CODE SECTION 5.016

WARNING: ONE OR MORE RECORDED LIENS HAVE BEEN FILED THAT MAKE A CLAIM AGAINST THIS PROPERTY AS LISTED BELOW. IF A LIEN IS NOT RELEASED AND THE PROPERTY IS CONVEYED WITHOUT THE CONSENT OF THE LIENHOLDER, IT IS POSSIBLE THAT THE LIENHOLDER COULD DEMAND FULL PAYMENT OF THE OUTSTANDING BALANCE OF THE LIEN IMMEDIATELY. YOU MAY WISH TO CONTACT EACH LIENHOLDER FOR FURTHER INFORMATION AND DISCUSS THIS MATTER WITH AN ATTORNEY

__________________________________, Seller(s), hereby provides notice to ____________ ________________________, as Purchaser(s), pursuant to Texas Property Code, Section 5.016 as follows: The address of the property is____ __________________________________ and the legal description of the property in question is as follows:____

1. The name, address and phone number of the lienholder against the Property is as follows:

____

____

____

____

2. Loan Information(Acct No._________________):

a) Principal Balance: $_________________ Current Payoff: $_______________
b) Interest Rate: ______________% Monthly Payment: $___________________

3. The lienholder has not consented to transfer of the Property to _______________________.

4. For the existing insurance policy relating to the Property, the following applies:
a) The name of the Insurer is ____________________________
b) The name of the Insured is ____________________________________
c) The amount for which the Property is insured is $__________________
d) The Property that is insured is ____

Dated this the ______ day of __________________, 201___.

Purchaser(s):___________________________ **Date:**_______________

___________________________ **Date:**_______________

Seller(s):___________________________ **Date:**_______________

___________________________ **Date:**_______________

NOTICE OF CONVEYANCE OF RESIDENTIAL PROPERTY ENCUMBERED BY LIEN PURSUANT TO TEXAS PROPERTY CODE SECTION 5.016

The parties to this transaction have agreed to NOT give notice to the lender of the intended property transfer.

Dated this the ______ day of __________________, 201___.

Purchaser(s):____________________________ **Date:**_______________

____________________________ **Date:**_______________

Seller(s):____________________________ **Date:**_______________

____________________________ **Date:**_______________

AUTHORIZATION TO RELEASE INFORMATION

Authorization dated this ______ day of ____________________, 20____.

Borrower(s): ____

Date of Birth: __________________

SSN: _______________________

Property Address: ____

Lender Name: ______________________

Loan Number: ______________________

Lender Phone number: ____________________

Lender Fax number: ____________________

I/We the undersigned hereby authorize you to release information regarding the above referenced loan to Tipton Law Firm, PLLC and ____________________________ and/or their agents/assigns. This form may be duplicated in blank and/or sent via facsimile transmission. This authorization is a continuation authorization for said persons to receive information about my loan, including duplicates of any notices sent to me regarding my loan.

__________________________________	_________________________________
Borrower- Print Name	Borrower- Print Name
__________________________________	__________________________________
Borrower- Signature	Borrower- Signature

Information to assist Sellers in the completion of the 1099-S Certification and 1099-S Input Form

To comply with IRS regulations, requiring reporting of the sale or exchange of Real Property, follow the instructions below:

Step 1
Each Seller must complete a 1099-S Exemption Form (Husband and Wife must each complete a separate form).

Step 2

1. A) If all questions are answered "True or Yes" on the 1099-S Exemption Form, return the completed and signed form to Tipton Law Firm, PLLC. DO NOT complete the 1099-S Input Form. No additional steps are required.
2. B) If you answered "False or No" to any question on the 1099-S Exemption Form, continue to Step 3.

Step 3
Each seller who does not answer "True/Yes" to all questions on the 1099-S Exemption form, must complete and sign the attached 1099-S Input form. Return the completed 1099-S Input Form to your escrow officer. (if you do not know all the information, leave it blank and we will fill it in)

> **Husband and wife** filing joint returns need only complete one 1099 Input Form (and one percentage allocation of 100%).
> **TRUSTS:** Trusts are not automatically exempt from receiving 1099s. If the Trust has not been issued it's own Tax I.D. number then each trustee must complete the form with the social security number to be used and the name, as it appears on tax return, with the percentage allocation for each trustee. If the Trust has it's own TIN then enter the Trust Tax I.D. number and the legal name as it appears on the tax return.
> **ESTATES:** If using the decedent's social security to file tax return, then use the decedents name. If the Estate has been issued it's own TIN, then use Estate of John Smith and the TIN assigned to that Estate name.
> **CONSERVATORSHIPS:** If a Minor, use the Name and social security number assigned to that minor. If an Elder, use the Elder's name and social security number that the tax return will be filed under.
> **PARTNERSHIPS/LLC (Limited Liability Company):** Are not automatically exempt. The name and tax I.D. number for the partnership, one 1099 will be issued to one partner. (If volume transferor please provide documentation.)
> *Corporations, Non-profits, government entities, 1031 Exchanges, Refinance, Bankruptcy, Deed in Lieu of Foreclosure, Bulk Sales and Volume Transferors (more than 25 transactions per year)* ***are automatically exempt.***

The IRS wants the social security number that was assigned to the name (as it appears on IRS records) **that will be filing the tax return reporting the sale of this property in this transaction.**

(In some cases this may not be the same name as the Seller(s) on the Grant Deed. i.e. Decedents cannot convey property. Trusts cannot convey property.)

ALL SELLERS - COMPLETE THE 1099-S CERTIFICATION
COMPLETE THE 1099-S INPUT FORM - ONLY IF APPLICABLE

1099-S Exemption Form

EXCLUSION OF PRINCIPAL RESIDENCE FROM 1099-S REPORTING REQUIREMENT

The seller of a principal residence should complete this form to determine whether the sale or exchange should be reported to the IRS on Form 1099 - S, Proceeds from Real estate Transaction.If the seller properly completes Parts I and III, and makes a "true" response to assurances(1) through(6) in Part II(or a "not applicable" response to assurance(6)), no information reporting to the seller or to the IRS will be required for that seller.The term "seller" includes each owner of the residence that is sold or exchanged.Thus, if a residence has more than one owner, the closing agent must either obtain a certification from each owner (whether married or not) or file an information return and furnish a payee statement for any owner who does not make the certification.

Part I. Seller Information Date of Closing:

1. Name:	

2. Address or legal description (including city, state, and ZIP code) of residence being sold or exchange

3. Taxpayer Identification Number (TIN):

Part II. Seller Assurances

True	False	
☐	☐	(1) I owned and used the residence as my principal residence for periods aggregating 2 years or more during the 5-year period ending on the date of the sale or exchange of the residence.
☐	☐	(2) I have not sold or exchanged another principal residence during the 2-year period ending on the date of the sale or exchange of the residence.
☐	☐	(3) I (or my spouse or former spouse, if I was married at any time during the period beginning after May 6, 1997, and ending today) have not used any portion of the residence for business or rental purposes after May 6, 1997.
☐	☐	(4) At least one of the following three statements applies: The sale or exchange is of the entire residence for $250,000 or less. ...OR... I am married, the sale or exchange is of the entire residence for $500,000 or less, and the gain on the sale or exchange of the entire residence is $250,000 or less. ...OR... I am married, the sale or exchange is of the entire residence for $500,000 or less, and (a) I intend to file a joint return for the year of the sale or exchange, (b) my spouse also used the residence as his or her principal residence for periods aggregating 2 years or more during the 5 -year period ending on the date of the sale or exchange of the residence, and (c) my spouse also has not sold or exchanged another principal residence during the 2 -year period ending on the date of the sale or exchange of the principal residence.
☐	☐	(5) During the 5-year period ending on the date of the sale or exchange of the residence, I did not acquire the residence in an exchange to which section 1031 of the Internal Revenue Code applied.
☐ ☐ N/A	☐	(6) If my basis in the residence is determined by reference to the basis in the hands of a person who acquired the residence in an exchange to which section 1031 of the Internal Revenue Code applied, the exchange to which section 1031 applied occured more than 5 years prior to the date I sold or exchanged the residence.

Part III. Seller Certification

Under penalties of perjury, I certify that all the above information is true as of the end of the day of the sale or exchange.

Signature Date 05/08/2020

1099-S Exemption Form

EXCLUSION OF PRINCIPAL RESIDENCE FROM 1099-S REPORTING REQUIREMENT

The seller of a principal residence should complete this form to determine whether the sale or exchange should be reported to the IRS on Form 1099 - S, Proceeds from Real estate Transaction.If the seller properly completes Parts I and III, and makes a "true" response to assurances(1) through(6) in Part II(or a "not applicable" response to assurance(6)), no information reporting to the seller or to the IRS will be required for that seller.The term "seller" includes each owner of the residence that is sold or exchanged.Thus, if a residence has more than one owner, the closing agent must either obtain a certification from each owner (whether married or not) or file an information return and furnish a payee statement for any owner who does not make the certification.

Part I. Seller Information Date of Closing:

1. Name:	

2. Address or legal description (including city, state, and ZIP code) of residence being sold or exchange

3. Taxpayer Identification Number (TIN):

Part II. Seller Assurances

True	False	
☐	☐	(1) I owned and used the residence as my principal residence for periods aggregating 2 years or more during the 5-year period ending on the date of the sale or exchange of the residence.
☐	☐	(2) I have not sold or exchanged another principal residence during the 2-year period ending on the date of the sale or exchange of the residence.
☐	☐	(3) I (or my spouse or former spouse, if I was married at any time during the period beginning after May 6, 1997, and ending today) have not used any portion of the residence for business or rental purposes after May 6, 1997.
☐	☐	(4) At least one of the following three statements applies: The sale or exchange is of the entire residence for $250,000 or less. ...OR... I am married, the sale or exchange is of the entire residence for $500,000 or less, and the gain on the sale or exchange of the entire residence is $250,000 or less. ...OR... I am married, the sale or exchange is of the entire residence for $500,000 or less, and (a) I intend to file a joint return for the year of the sale or exchange, (b) my spouse also used the residence as his or her principal residence for periods aggregating 2 years or more during the 5 -year period ending on the date of the sale or exchange of the residence, and (c) my spouse also has not sold or exchanged another principal residence during the 2 -year period ending on the date of the sale or exchange of the principal residence.
☐	☐	(5) During the 5-year period ending on the date of the sale or exchange of the residence, I did not acquire the residence in an exchange to which section 1031 of the Internal Revenue Code applied.
☐ ☐ N/A	☐	(6) If my basis in the residence is determined by reference to the basis in the hands of a person who acquired the residence in an exchange to which section 1031 of the Internal Revenue Code applied, the exchange to which section 1031 applied occured more than 5 years prior to the date I sold or exchanged the residence.

Part III. Seller Certification

Under penalties of perjury, I certify that all the above information is true as of the end of the day of the sale or exchange.

Signature Date 05/08/2020

Note to SELLER:

This form does NOT need to be completed if all questions on the 1099-S CERTIFICATION FORM are answered "True". If the property involves a 1031 Tax Deferred Exchange, PLEASE COMPLETE THIS FORM.

FOUR SEASONS ESCROW, INC.

1099-S INPUT FORM

Company Number	Office Number	Type	Escrow Number	Actual Closing Date
		☐ Add ☐ Change ☐ Delete	____________	

SUBJECT PROPERTY INFORMATION

STREET ADDRESS OR BRIEF FORM OF LEGAL DESCRIPTION (FOR VACANT LAND, USE APN, COUNTY AND STATE) ____________
CITY STATE ZIP CODE ____________

TRANSACTION DATA

CONTRACT SALES PRICE (Line 401 of HUD-1 form) Note: If this is an exchange, provide total dollar value of cash, notes and debt relief received by this exchanger.	**No. OF 1099-S** forms required for the sale of this property	**2 OR MORE 1099 FORMS - S** If 2 or more 1099-s forms are required for this transaction, record the dollar amount for the seller based on the seller's declaration	**BUYERS PART OF REAL ESTATE TAX** Show any real estate tax, on a residence, charged to the buyer at settlement.	**CONTINGENT TRANSACTION** Is this a contingent transaction wherein gross proceeds cannot be determined with certainty at time of closing?	**EXCHANGE** Was (or will there be) other property services received?
$ ____________		$ ____________	$ ____________	☐ Yes	☐ Yes

SELLER INFORMATION - PLEASE PRINT CLEARLY

SELLER'S LAST NAME FIRST NAME M.I. ____________
SELLER'S **FORWARDING** STREET ADDRESS ____________
CITY STATE ____________ ZIP CODE (or country if not USA) ____________

SELLER'S SOCIAL SECURITY NUMBER ____________ OR	SELLER'S TAX IDENTIFICATION NUMBER ____________
You are required by law to provide your closing agent with your correct Taxpayer Identification Number. If you do not provide your closing agent with your correct Taxpayer Identification Number; you may be subject to civil or criminal penalties imposed by law under the Tax Reform Act of 1986, under Internal Revenue Code Sections 6045(E), 6676, 6722, 6723 and 7203.	Under penalties of perjury, I certify that the number shown above is my correct Taxpayer Identification Number. ____________ Seller's Signature ____________ Date Signed

SELLER INFORMATION SHEET

Seller Information

Seller #1 full name (First, Middle and Last):____

Seller Birthday: ___/ ___/ ______ Seller DL Number: ________________ Seller SSN:______________________

Current Address:____

Past Addresses (last 10 years):____

____

____

Marital Status: ____________________________________

Seller #2 full name (First, Middle and Last):____

Seller Birthday: ___/ ___/ ______ Seller DL Number: ________________ Seller SSN:______________________

Current Address:____

Past Addresses (last 10 years):____

____

____

Marital Status: ____________________________________

Names on Title

Is seller(s) only name on title? ☐ Yes ☐No –if no, who else is on title?_____________________________

Relation to Seller(s)__________________________

Are they alive? ☐ Yes ☐No –if no, do they have a will? ☐ Yes ☐No –if no, may need Affidavit of Heirship

Marital History

Marriage? ☐No ☐Yes – If yes, Spouses name: __________________ Date of Marriage:___/ ___/ ______

Did spouse live in property? ☐No ☐Yes – If yes, include in contract.

Divorce? ☐No ☐Yes – If yes, County/State_________________ Date of Divorce: ___/ ___/ ______

Death? ☐No ☐Yes – If yes, need copy of Death Certificate

Is there a will? ☐No ☐Yes – If yes, is it probated? ☐No ☐Yes ☐Currently in probate

Mortgage Info

Do you have a Recent Statement? ☐No ☐Yes

Lender Name____________________________________ Loan Number_____________________

Delinquent on Payments? ☐No ☐Yes

Please fill out this page and return with completed contract

WRAPAROUND PRE-CLOSING CHECKLIST

Thank you for choosing Tipton Law Firm, PLLC to close your Wraparound transaction. In order to start processing your transaction, please ensure that the following documents and forms are filled out and returned at the time you submit your contract.

☐ Executed Purchase & Sales Agreement and Seller Financing Addendum (Financed amount **MUST** be larger than or the same as the underlying loan balance)

☐ Current Mortgage Statement

☐ Completed Escrow Servicing Contract (to close through this office, the use of an escrow servicer is required)

☐ Obtain all HOA information (we can submit a request for a transfer package for you, but you will need to provide the HOA's information)

☐ Fully executed Pre-Closing Package (pre-closing disclosures, Texas 5.016 Disclosure, Seller Info Sheet, and 1099-S Information Sheet)

☐ Any other closing expense invoices (insurance, home warranty, broker's DA, etc.)

Seller Info:

Name(s): ___________________________________

Phone: ___________________________________

Email: ___________________________________

Address: ___________________________________

Buyer Info:

Name(s): ___________________________________

Phone: ___________________________________

Email: ___________________________________

Address: ___________________________________

The above information is **required** in order to process your transaction. Failure to provide the above necessary information may cause a delay in your closing.

Tipton Law Firm, PLLC

INTERMEDIARY ACKNOWLEDGEMENT

Property Address:____

The parties to this transaction have requested that Tipton Law Firm, PLLC ("The Firm") draft the documents for a real estate closing. For this particular closing I will be acting as an intermediary only and will not be an advocate for either side. This role is different from the traditional one of an attorney; I must remain impartial.

Being an intermediary means that any information disclosed by you to me during this representation will not be protected by attorney-client privilege in a subsequent legal proceeding asserted by or against one of you involving the other.

By using Tipton Law Firm, PLLC as an intermediary to document the agreement between the parties, both parties agree and acknowledge that The Firm cannot and will not give any legal advice to either side. While The Firm can answer general questions regarding the transaction and meaning behind the documents, The Firm will not advise either party to the transaction as to whether this transaction is right for them, or any other issue or question that is not general in nature. Both parties should seek the advice of their own counsel should they need any legal advice regarding the above transaction.

We, the undersigned, hereby acknowledge and agree that we have entered into this transaction, being fully advised of the possible conflicts and/or problems that may arise from using an intermediary, and other possible issues that are not stated above, and forever more INDEMNIFY AND HOLD HARMLESS TIPTON LAW FIRM, PLLC, ALL OF ITS EMPLOYEES, AND ALLISON K. TIPTON INDIVIDUALLY FROM ANY LIABILITY WHATSOVER.

Sellers:

__________________________________ ________________
Date

__________________________________ ________________
Date

Buyers:

__________________________________ ________________
Date

__________________________________ ________________
Date

Tipton Law Firm PLLC, Allison K. Tipton, Attorney
PO Box 690876, San Antonio, Texas 78269 P (210) 963-5288,
F (210) 963-5153 www.tiptonlawfirmsa.com, E allison@tiptonlawfirmsa.com

WRAPAROUND PRE-CLOSING DISCLOSURES

Address:____

GENERAL INFORMATION:
A wraparound transaction is a form of creative seller financing that leaves the original(underlying) loan and lien in place when a property is sold. That means that the owner finance note for this transaction will not be the only loan/mortgage on the property. The Seller/Lender in this transaction will be responsible for ensuring that the underlying loan/mortgage remains current.

BUYER: Please review the below disclosures and initial next to each one after you've read and understood it.

______1. **UNDERLYING MORTGAGE NOT PAID OFF**: I full understand and acknowledge that under the terms of the Contract presented to me that the underlying mortgage will **NOT** be paid off at closing. I agree and acknowledge that this is a "Wraparound Transaction" and that the loan could stay on the property for the duration of the loan term.

______2. **DUE ON SALE**: I fully agree and acknowledge that a transfer of title may be against the underlying loan terms. I understand that there is a possibility that the underlying loan may be called 'due' by the lender upon transfer of title and that the Seller is not guaranteeing that they will pay the loan off if this happens. However, the Parties agree that should the underlying loan be "Called Due" for any reason, Buyer and Seller/Lender will work together to either refinance the owner finance note to pay off the underlying loan, or work with the underlying lender to fix the situation by any means necessary.

______3. **INSURANCE COVERAGE:** Buyer is aware that the nature of a wraparound transaction is different than your regular mortgage transaction. Since the underlying loan has the original borrowers name, Buyer understands that the original borrower must be listed on the home owners insurance policy. Seller/Lender will assist Buyer with obtaining an acceptable policy with the right insured information.

______4. **NOTE SERVICER:** Buyer and Seller/Lender understand that a Note Servicer will be used to service the payments of the note. This will ensure that the underlying mortgage will get paid when Buyer makes their monthly payments.

______5. **LEGAL COUNSEL ADVISED**: I acknowledge I am being advised to seek independent legal counsel to review the Offer to Purchase/Agreement.

______6. **CLOSING LAW FIRM DOES NOT REPRESENT EITHER PARTY**: I acknowledge and understand that this transaction will close through Tipton Law Firm, PLLC(Attorney), and that Attorney will be acting in an intermediary capacity and will not be able to give me legal advice. I acknowledge and understand that should I need legal advice, I should seek out my own independent counsel.

______7. **NO OTHER PROMISES**: I have not been promised anything other than what is described in the Contract I have been presented with. There are no unresolved issues, no other agreements, nor are there other terms not disclosed in the Contract.

______8. **FULLY INFORMED AND NOT CONFUSED**: I have signed the Contract being fully informed with a sufficient understanding of all terms and conditions contained therein. I am not confused about any aspect of The Contract.

______9. **ACCEPTANCE**: I have reviewed the terms and conditions contained in the contract and have accepted the terms under which I will purchase the property.

Print Names Below:

Seller(s):____

Buyer(s):____

Acknowledged by:

_________________________________ __________
(Seller) **Date**

_________________________________ __________
(Seller) **Date**

_________________________________ __________
(Buyer) **Date**

_________________________________ __________
(Buyer) **Date**

WRAPAROUND FEE INFORMATION

Address:____

Buyer Name(s):____________________________________

Seller Name(s):____________________________________

The standard closing fees for a Wraparound Transaction closed through Tipton Law Firm, PLLC are $1,500.00. These fees are allocated on a flat fee basis, payable by agreement between the parties. Closing fees include title searches, all document preparation, recording fees and post-closing disbursements.

Below, please designate the exact dollar amount of the Wraparound Transaction Fees to be payable by each party.

Buyer: $_____________________

Seller: $_____________________

Signatures:

________________________________ _____________
Buyer Date

________________________________ _____________
Buyer Date

________________________________ _____________
Seller Date

________________________________ _____________
Seller Date

NOTICE OF CONVEYANCE OF RESIDENTIAL PROPERTY ENCUMBERED BY LIEN PURSUANT TO TEXAS PROPERTY CODE SECTION 5.016

WARNING: ONE OR MORE RECORDED LIENS HAVE BEEN FILED THAT MAKE A CLAIM AGAINST THIS PROPERTY AS LISTED BELOW. IF A LIEN IS NOT RELEASED AND THE PROPERTY IS CONVEYED WITHOUT THE CONSENT OF THE LIENHOLDER, IT IS POSSIBLE THAT THE LIENHOLDER COULD DEMAND FULL PAYMENT OF THE OUTSTANDING BALANCE OF THE LIEN IMMEDIATELY. YOU MAY WISH TO CONTACT EACH LIENHOLDER FOR FURTHER INFORMATION AND DISCUSS THIS MATTER WITH AN ATTORNEY

__________________________________, Seller(s), hereby provides notice to ____________ ________________________, as Purchaser(s), pursuant to Texas Property Code, Section 5.016 as follows: The address of the property is____ __________________________________ and the legal description of the property in question is as follows:____

1. The name, address and phone number of the lienholder against the Property is as follows:

____

____

____

____

2. Loan Information(Acct No._________________):

a) Principal Balance: $_________________ Current Payoff: $_______________
b) Interest Rate: ______________% Monthly Payment: $___________________

3. The lienholder has not consented to transfer of the Property to _______________________.

4. For the existing insurance policy relating to the Property, the following applies:
a) The name of the Insurer is ____________________________
b) The name of the Insured is ____________________________________
c) The amount for which the Property is insured is $__________________
d) The Property that is insured is ____

Dated this the ______ day of __________________, 201___.

Purchaser(s):___________________________ **Date:**_______________

___________________________ **Date:**_______________

Seller(s):___________________________ **Date:**_______________

___________________________ **Date:**_______________

NOTICE OF CONVEYANCE OF RESIDENTIAL PROPERTY ENCUMBERED BY LIEN PURSUANT TO TEXAS PROPERTY CODE SECTION 5.016

The parties to this transaction have agreed to NOT give notice to the lender of the intended property transfer.

Dated this the ______ day of __________________, 201___.

Purchaser(s):____________________________ **Date:**_______________

____________________________ **Date:**_______________

Seller(s):____________________________ **Date:**_______________

____________________________ **Date:**_______________

Information to assist Sellers in the completion of the 1099-S Certification and 1099-S Input Form

To comply with IRS regulations, requiring reporting of the sale or exchange of Real Property, follow the instructions below:

Step 1
Each Seller must complete a 1099-S Exemption Form (Husband and Wife must each complete a separate form).

Step 2

1. A) If all questions are answered "True or Yes" on the 1099-S Exemption Form, return the completed and signed form to Tipton Law Firm, PLLC. DO NOT complete the 1099-S Input Form. No additional steps are required.
2. B) If you answered "False or No" to any question on the 1099-S Exemption Form, continue to Step 3.

Step 3
Each seller who does not answer "True/Yes" to all questions on the 1099-S Exemption form, must complete and sign the attached 1099-S Input form. Return the completed 1099-S Input Form to your escrow officer. (if you do not know all the information, leave it blank and we will fill it in)

> **Husband and wife** filing joint returns need only complete one 1099 Input Form (and one percentage allocation of 100%).
> **TRUSTS:** Trusts are not automatically exempt from receiving 1099s. If the Trust has not been issued it's own Tax I.D. number then each trustee must complete the form with the social security number to be used and the name, as it appears on tax return, with the percentage allocation for each trustee. If the Trust has it's own TIN then enter the Trust Tax I.D. number and the legal name as it appears on the tax return.
> **ESTATES:** If using the decedent's social security to file tax return, then use the decedents name. If the Estate has been issued it's own TIN, then use Estate of John Smith and the TIN assigned to that Estate name.
> **CONSERVATORSHIPS:** If a Minor, use the Name and social security number assigned to that minor. If an Elder, use the Elder's name and social security number that the tax return will be filed under.
> **PARTNERSHIPS/LLC (Limited Liability Company):** Are not automatically exempt. The name and tax I.D. number for the partnership, one 1099 will be issued to one partner. (If volume transferor please provide documentation.)
> *Corporations, Non-profits, government entities, 1031 Exchanges, Refinance, Bankruptcy, Deed in Lieu of Foreclosure, Bulk Sales and Volume Transferors (more than 25 transactions per year)* ***are automatically exempt.***

The IRS wants the social security number that was assigned to the name (as it appears on IRS records) **that will be filing the tax return reporting the sale of this property in this transaction.**

(In some cases this may not be the same name as the Seller(s) on the Grant Deed. i.e. Decedents cannot convey property. Trusts cannot convey property.)

ALL SELLERS - COMPLETE THE 1099-S CERTIFICATION
COMPLETE THE 1099-S INPUT FORM - ONLY IF APPLICABLE

1099-S Exemption Form

EXCLUSION OF PRINCIPAL RESIDENCE FROM 1099-S REPORTING REQUIREMENT

The seller of a principal residence should complete this form to determine whether the sale or exchange should be reported to the IRS on Form 1099 - S, Proceeds from Real estate Transaction.If the seller properly completes Parts I and III, and makes a "true" response to assurances(1) through(6) in Part II(or a "not applicable" response to assurance(6)), no information reporting to the seller or to the IRS will be required for that seller.The term "seller" includes each owner of the residence that is sold or exchanged.Thus, if a residence has more than one owner, the closing agent must either obtain a certification from each owner (whether married or not) or file an information return and furnish a payee statement for any owner who does not make the certification.

Part I. Seller Information Date of Closing:

1. Name:	

2. Address or legal description (including city, state, and ZIP code) of residence being sold or exchange

3. Taxpayer Identification Number (TIN):

Part II. Seller Assurances

True	False	
☐	☐	(1) I owned and used the residence as my principal residence for periods aggregating 2 years or more during the 5-year period ending on the date of the sale or exchange of the residence.
☐	☐	(2) I have not sold or exchanged another principal residence during the 2-year period ending on the date of the sale or exchange of the residence.
☐	☐	(3) I (or my spouse or former spouse, if I was married at any time during the period beginning after May 6, 1997, and ending today) have not used any portion of the residence for business or rental purposes after May 6, 1997.
☐	☐	(4) At least one of the following three statements applies: The sale or exchange is of the entire residence for $250,000 or less. ...OR... I am married, the sale or exchange is of the entire residence for $500,000 or less, and the gain on the sale or exchange of the entire residence is $250,000 or less. ...OR... I am married, the sale or exchange is of the entire residence for $500,000 or less, and (a) I intend to file a joint return for the year of the sale or exchange, (b) my spouse also used the residence as his or her principal residence for periods aggregating 2 years or more during the 5 -year period ending on the date of the sale or exchange of the residence, and (c) my spouse also has not sold or exchanged another principal residence during the 2 -year period ending on the date of the sale or exchange of the principal residence.
☐	☐	(5) During the 5-year period ending on the date of the sale or exchange of the residence, I did not acquire the residence in an exchange to which section 1031 of the Internal Revenue Code applied.
☐ ☐ N/A	☐	(6) If my basis in the residence is determined by reference to the basis in the hands of a person who acquired the residence in an exchange to which section 1031 of the Internal Revenue Code applied, the exchange to which section 1031 applied occured more than 5 years prior to the date I sold or exchanged the residence.

Part III. Seller Certification

Under penalties of perjury, I certify that all the above information is true as of the end of the day of the sale or exchange.

Signature Date 05/08/2020

1099-S Exemption Form

EXCLUSION OF PRINCIPAL RESIDENCE FROM 1099-S REPORTING REQUIREMENT

The seller of a principal residence should complete this form to determine whether the sale or exchange should be reported to the IRS on Form 1099 - S, Proceeds from Real estate Transaction.If the seller properly completes Parts I and III, and makes a "true" response to assurances(1) through(6) in Part II(or a "not applicable" response to assurance(6)), no information reporting to the seller or to the IRS will be required for that seller.The term "seller" includes each owner of the residence that is sold or exchanged.Thus, if a residence has more than one owner, the closing agent must either obtain a certification from each owner (whether married or not) or file an information return and furnish a payee statement for any owner who does not make the certification.

Part I. Seller Information Date of Closing:

1. Name:	

2. Address or legal description (including city, state, and ZIP code) of residence being sold or exchange

3. Taxpayer Identification Number (TIN):

Part II. Seller Assurances

True	False	
☐	☐	(1) I owned and used the residence as my principal residence for periods aggregating 2 years or more during the 5-year period ending on the date of the sale or exchange of the residence.
☐	☐	(2) I have not sold or exchanged another principal residence during the 2-year period ending on the date of the sale or exchange of the residence.
☐	☐	(3) I (or my spouse or former spouse, if I was married at any time during the period beginning after May 6, 1997, and ending today) have not used any portion of the residence for business or rental purposes after May 6, 1997.
☐	☐	(4) At least one of the following three statements applies: The sale or exchange is of the entire residence for $250,000 or less. ...OR... I am married, the sale or exchange is of the entire residence for $500,000 or less, and the gain on the sale or exchange of the entire residence is $250,000 or less. ...OR... I am married, the sale or exchange is of the entire residence for $500,000 or less, and (a) I intend to file a joint return for the year of the sale or exchange, (b) my spouse also used the residence as his or her principal residence for periods aggregating 2 years or more during the 5 -year period ending on the date of the sale or exchange of the residence, and (c) my spouse also has not sold or exchanged another principal residence during the 2 -year period ending on the date of the sale or exchange of the principal residence.
☐	☐	(5) During the 5-year period ending on the date of the sale or exchange of the residence, I did not acquire the residence in an exchange to which section 1031 of the Internal Revenue Code applied.
☐ ☐ N/A	☐	(6) If my basis in the residence is determined by reference to the basis in the hands of a person who acquired the residence in an exchange to which section 1031 of the Internal Revenue Code applied, the exchange to which section 1031 applied occured more than 5 years prior to the date I sold or exchanged the residence.

Part III. Seller Certification

Under penalties of perjury, I certify that all the above information is true as of the end of the day of the sale or exchange.

Signature Date 05/08/2020

Note to SELLER:

This form does NOT need to be completed if all questions on the 1099-S CERTIFICATION FORM are answered "True". If the property involves a 1031 Tax Deferred Exchange, PLEASE COMPLETE THIS FORM.

FOUR SEASONS ESCROW, INC.

1099-S INPUT FORM

Company Number	Office Number	Type	Escrow Number	Actual Closing Date
		☐ Add ☐ Change ☐ Delete	____________	

SUBJECT PROPERTY INFORMATION

STREET ADDRESS OR BRIEF FORM OF LEGAL DESCRIPTION (FOR VACANT LAND, USE APN, COUNTY AND STATE) ____________
CITY STATE ZIP CODE ____________

TRANSACTION DATA

CONTRACT SALES PRICE	**No. OF 1099-S** forms required for the sale of this property	**2 OR MORE 1099 FORMS - S**	**BUYERS PART OF REAL ESTATE TAX**	**CONTINGENT TRANSACTION**	**EXCHANGE**
(Line 401 of HUD-1 form) Note: If this is an exchange, provide total dollar value of cash, notes and debt relief received by this exchanger. $ ____________		If 2 or more 1099-s forms are required for this transaction, record the dollar amount for the seller based on the seller's declaration $ ____________	Show any real estate tax, on a residence, charged to the buyer at settlement. $ ____________	Is this a contingent transaction wherein gross proceeds cannot be determined with certainty at time of closing? ☐ Yes	Was (or will there be) other property services received? ☐ Yes

SELLER INFORMATION - PLEASE PRINT CLEARLY

SELLER'S LAST NAME FIRST NAME M.I. ____________
SELLER'S **FORWARDING** STREET ADDRESS ____________
CITY STATE ZIP CODE (or country if not USA) ____________ ____________

SELLER'S SOCIAL SECURITY NUMBER OR ____________	SELLER'S TAX IDENTIFICATION NUMBER ____________
You are required by law to provide your closing agent with your correct Taxpayer Identification Number. If you do not provide your closing agent with your correct Taxpayer Identification Number; you may be subject to civil or criminal penalties imposed by law under the Tax Reform Act of 1986, under Internal Revenue Code Sections 6045(E), 6676, 6722, 6723 and 7203.	Under penalties of perjury, I certify that the number shown above is my correct Taxpayer Identification Number. ____________ ____________ Seller's Signature Date Signed

SELLER INFORMATION SHEET

Seller Information

Seller #1 full name (First, Middle and Last):____

Seller Birthday: ___/ ___/ ______ Seller DL Number: ______________ Seller SSN:___________________

Current Address:____

Past Addresses (last 10 years):____

____

____

Marital Status: _______________________________

Seller #2 full name (First, Middle and Last):____

Seller Birthday: ___/ ___/ ______ Seller DL Number: ______________ Seller SSN:___________________

Current Address:____

Past Addresses (last 10 years):____

____

____

Marital Status: _______________________________

Names on Title

Is seller(s) only name on title? ☐ Yes ☐No –if no, who else is on title?_________________________

Relation to Seller(s)______________________

Are they alive? ☐ Yes ☐No –if no, do they have a will? ☐ Yes ☐No –if no, may need Affidavit of Heirship

Marital History

Marriage? ☐No ☐Yes – If yes, Spouses name: _______________ Date of Marriage:___/ ___/ ______

Did spouse live in property? ☐No ☐Yes – If yes, include in contract.

Divorce? ☐No ☐Yes – If yes, County/State_______________ Date of Divorce: ___/ ___/ ______

Death? ☐No ☐Yes – If yes, need copy of Death Certificate

Is there a will? ☐No ☐Yes – If yes, is it probated? ☐No ☐Yes ☐Currently in probate

Mortgage Info

Do you have a Recent Statement? ☐No ☐Yes

Lender Name_______________________________ Loan Number__________________

Delinquent on Payments? ☐No ☐Yes

Please fill out this page and return with completed contract

TEXAS EXAMPLE ONLY

You should seek a competent real estate attorney for review

$__________ __________, 20_____

Note Secured by Wraparound Mortgage

Date:

Maker:

Maker's Mailing Address: **[include county]**

Payee:

Place for Payment: **[include county]**

Principal Amount: $__________. The original principal amount of this Note includes the unpaid principal balances of that certain promissory note, referred to in this Note as the "Underlying Note," dated [date], given by [name of maker], in the original face amount of $__________, and secured by that certain first deed of trust to the Real Property, recorded on [date], in Volume ____, Page _____, of the Official Public Records of __________ County, Texas.

Annual Interest Rate: __________ percent (_____%)

Annual Interest Rate on Matured, Unpaid Amounts: Fifteen percent (15%)

Terms of Payment (principal and interest): This Note and any accrued interest are due in __________ (_____) monthly principal and interest payments of $_____ per month, beginning on __________, 200___ and ending on __________, 20____ [with a final balloon payment of $__________ due and payable on __________, 20_____]. However, if the Underlying Note described below, or any successor or substitute note secured by a first mortgage on the real property ("Real Property") described in the Wraparound Mortgage, shall provide for a different date for the payment of the entire principal balance of the Note, then the entire principal balance payable in this Note shall be payable on that date rather than on the date provided above. In no event shall this other date be earlier than [date].

Security for Payment: a Deed of Trust from __________, Grantor, to ________, Trustee, for the benefit of __________, Beneficiary, of even date herewith, to be recorded in the Official Public Records of __________ County, Texas (the "Wraparound Mortgage").

Maker promises to pay to the order of Payee the Principal Amount plus interest at the Annual Interest Rate. This note is payable at the Place for Payment and according to the Terms of Payment. All unpaid amounts are due by the Maturity Date. After maturity, Maker promises to pay any unpaid principal balance plus interest at the Annual Interest Rate on Matured, Unpaid Amounts.

Payee is obligated to pay and discharge the Underlying Note and, so long as Maker is not in default with respect to any payments required under this Note, Payee shall indemnify, hold harmless, and defend Maker of and from any and all loss, cost, damage, liability, and expense, including attorney's fees, arising out of any actual or alleged default in the payment of any underlying obligation. However, if

Payee is required to pay, or becomes obligated to pay, any penalties, late charges, or interest under the terms of any of the underlying obligations by reason of Maker's failure to make timely payments, Maker promises to pay the amount of any such penalties, late charges, or interest to Payee on demand.

Maker agrees that from time to time the Underlying Note may be refinanced, adjusted, or modified, but only if the following conditions are satisfied:

(a) At no time while this Note is outstanding shall the aggregate obligations secured by mortgages to the Real Property exceed the amount of the then unpaid principal balance of this Note.

(b) At no time while this Note is outstanding shall the total monthly payments required to be made in connection with any obligation secured by mortgages to the Real Property exceed, in the aggregate, the monthly payment required to be made pursuant to this Note.

(c) Unless an earlier due date is provided for, any obligations secured by mortgages to the Real Property shall have a due date for the payment of the unpaid principal balance of any such obligation that is contemporaneous with the due date for the payment of this Note.

Maker may prepay this note in any amount at any time before the Maturity Date without penalty or premium. Prepayments will be applied to installments on the last maturing principal, and interest on that prepaid principal will immediately cease to accrue.

If Maker defaults in the payment of this note or in the performance of any obligation in any instrument securing or collateral to this note, Payee may declare the unpaid principal balance, earned interest, and any other amounts owed on the note immediately due. Maker and each surety, endorser, and guarantor waive all demand for payment, presentation for payment, notice of intention to accelerate maturity, notice of acceleration of maturity, protest, and notice of protest, to the extent permitted by law.

Maker also promises to pay reasonable attorney's fees and court and other costs if this note is placed in the hands of an attorney to collect or enforce the note. These expenses will bear interest from the date of advance at the Annual Interest Rate on Matured, Unpaid Amounts. Maker will pay Payee these expenses and interest on demand at the Place for Payment. These expenses and interest will become part of the debt evidenced by the note and will be secured by any security for payment.

Interest on the debt evidenced by this note will not exceed the maximum rate or amount of non-usurious interest that may be contracted for, taken, reserved, charged, or received under law. Any interest in excess of that maximum amount will be credited on the Principal Amount or, if the Principal Amount has been paid, refunded. On any acceleration or required or permitted prepayment, any excess interest will be canceled automatically as of the acceleration or prepayment or, if the excess interest has already been paid, credited on the Principal Amount or, if the Principal Amount has been paid, refunded. This provision overrides any conflicting provisions in this note and all other instruments concerning the debt.

Each Maker is responsible for all obligations represented by this note.

When the context requires, singular nouns and pronouns include the plural.

THIS WRITTEN LOAN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

____
[Name of Maker]

PHOTO:
PEOPLEIMAGES / GETTY IMAGES

DEFINITION:

A wraparound mortgage is a type of home loan where the buyer's new mortgage essentially "wraps" around the seller's original mortgage. It's a type of secondary financing where the mortgage is provided by the seller rather than a traditional bank or mortgage lender.

A wraparound mortgage is a type of secondary financing where the buyer's new mortgage "wraps" around the seller's original home loan. The buyer makes mortgage payments directly to the seller, who pays their original lender.

Definition and Examples of a Wraparound Mortgage

A wraparound mortgage is a type of home loan where the buyer's new mortgage essentially "wraps" around the seller's original mortgage. It's a type of secondary financing where the mortgage is provided by the seller rather than a traditional bank or mortgage lender.

As the buyer makes mortgage payments to the seller, the seller uses that money to continue paying off their original mortgage loan. However, the home now belongs to the buyer.

How a Wraparound Mortgage Works

In a standard home purchase, the buyer gets a loan from a bank or mortgage lender to pay for the property. The seller uses the money provided by the buyer to pay off their existing mortgage and is no longer involved with the property.

mortgage includes the balance of the original loan plus the additional funds required for the purchase.

The buyer then makes monthly payments to the seller, who uses some of that money to pay their original loan and keeps the rest. The seller often makes a profit because of the larger loan amount and also because wraparound mortgages typically charge higher interest rates.[1]

For example, let's say you're looking to purchase a home and the seller offers a $200,000 wraparound mortgage with a 4% interest rate. The seller has $125,000 left on their mortgage with a 3% interest rate. If you agree to this wraparound mortgage, you'll make your monthly payments directly to the seller, and they'll continue making their payments to their mortgage lender. In this scenario, the seller makes a profit because your monthly payment is higher than theirs due to the differences in the interest rates and loan amounts.

> **Note**
>
> Wraparound mortgages are typically junior liens, which means that if the seller defaults on their loan, the original lender can foreclose on the property—and the buyer could lose their home.

Wraparound Mortgage vs. Second Mortgage

WRAPAROUND MORTGAGE	SECOND MORTGAGE
The secondary loan includes the original loan amount plus an additional amount	The secondary loan is in addition to the original mortgage loan
Used as a form of seller financing	Typically used by homeowners to access their

Not typically offered by lending institutions	Typically offered by lending institutions in the form of a home equity loan or home equity line of credit

Pros and Cons of a Wraparound Mortgage

Pros	Cons
Easier to qualify for and more flexible for the buyer	The original lender can foreclose even if the buyer is current
Profitable for the seller	The seller must continue to make payments even if the buyer doesn't
	Not all lenders allow wraparound mortgages

Pros Explained

Easier to qualify for and more flexible for the buyer: In general, seller financing can make it easier to get approved for a mortgage even if you can't qualify for a traditional loan. It may also give you more flexible loan terms than those you might get through a traditional lender.

Profitable for the seller: Sellers often charge higher interest rates on wraparound mortgages than what they're paying on their existing mortgage. Also, the wraparound loan amount is typically higher, so they can make a profit on the interest and the difference in the loan principal.

Cons Explained

buyer is making payments on time, the original lender can foreclose if the seller stops paying.

The seller must continue to make payments even if the buyer doesn't: If you've sold a home using a wraparound mortgage, you're still obligated to make your mortgage payments, even if the buyer stops paying you. Because their loan is a junior loan, they don't face the risk of foreclosure unless you stop making your payments. But missing your payments can damage your credit, which puts you in a tricky spot.

Not all lenders allow wraparound mortgages: Many mortgage lenders require sellers to pay off their mortgage when they sell the property, so a wraparound mortgage may not be an option for all sellers.

Is a Wraparound Mortgage Worth It?

A wraparound mortgage can have some solid benefits for both buyers and sellers. If you're a prospective buyer who's struggling to qualify for a loan, a seller financing option like a wraparound mortgage can help you realize your dream of being a homeowner sooner than if you waited to improve your credit or save up a larger down payment.

But even if you make your payments on time, you face the risk of the seller defaulting on the original mortgage—in which case, you'll be kicked out of the home and it will go into foreclosure. To mitigate this risk, you can request to make your payments directly to the lender, but it's not always possible.

As a seller, a wraparound mortgage can provide a tidy profit, and if you're having trouble selling the home, this type of seller financing can open up more opportunities. However, you're still on the hook to make payments on the original mortgage, even if the buyer stops paying you. And while

qualify for other loans.

> ### Note
> Before agreeing to a wraparound mortgage, both the buyer and seller should carefully weigh the risks of relying on the other to make their payments on time.

How To Get a Wraparound Mortgage

A wraparound mortgage is a form of seller financing, so you'll need to speak with the seller of the home you're interested in buying to see if it's an option.

Eligibility requirements can vary based on the seller's discretion and the terms of their mortgage, but it's generally easier to get approved for seller financing than for a traditional mortgage loan.

> ### Key Takeaways
> - A wraparound mortgage is a type of secondary home loan provided by the seller.
> - The loan wraps around the original mortgage loan and typically has a higher loan amount and interest rate.
> - The buyer makes payments to the seller, and the seller continues to pay their original lender.
> - Wraparound mortgages can be easier to qualify for as a buyer and allow the seller to make a profit.

The Essential Documents and Contract Clauses to Purchase a Property Subject To

In this post, I dive deeper into the essential documents that you'll need for a Subject To deal, and some of the clauses that you should insert into the contracts to help protect you.

If this is the first part of this series on Subject To that you've come across, you might want to also check out Parts 1-3. Here's a summary of what I've covered so far:

What is the Subject To Real Estate Investment Strategy? (https://www.reikit.com/wholesaling-houses/acquisition/what-is-subject-to-real-estate-investment-strategy) Provides a thorough explanation of exactly what Subject To investing is, and how you can both make money with it and help homeowners in distress.

The Benefits and Risks of Investing in Real Estate Subject to an Existing Mortgage (https://www.reikit.com/wholesaling-houses/acquisition/benefits-risks-investing-real-estate-subject-to-existing-mortgage) Covers the benefits and risks of Subject To transactions that you and your seller should be aware of, including the due-on-sale clause.

The Steps to a Subject To Real Estate Deal (https://www.reikit.com/wholesaling-houses/acquisition/steps-to-a-subject-to-real-estate-deal) Breaks down the steps necessary to a successful Subject To real estate deal, from verifying seller facts to the closing.

As with most things involving the law, the basics of contracts would take up several chapters, so I'll only briefly cover the documents that you may need, and the clauses that you may want to have in your contracts when performing these transactions.

Let's start with defining the documents that you're most likely to need throughout the process and at closing.

The Documents Used in a Typical Subject To Transaction

This list is not inclusive of all possible forms, and your state or county may require more or less forms or they may be named differently.

As a good starting point, you can get a list of forms and documents required for a typical real estate transaction in your state from US Legal Forms (https://www.uslegalforms.com/realestate/?auslf=cl2018).

Once you have the basic contracts to ensure a legal transfer of property, you can add your own amendments and clauses specific to the Subject To transaction.

I recommend that you always have your Subject To contracts and documentation looked over by a real estate attorney in your jurisdiction.

Some of these documents are for your due diligence, some will be required for closing, others will be recorded, and some are simply for your records.

Most documentation will need to be signed by the sellers, some will need to be notarized and others just witnessed. It's most efficient to try to get all paperwork done at the same time, for example by having a mobile notary come to a central place where you and the sellers can meet.

Third-Party Authorization to Release Information

As mentioned in the last post, the steps to a subject to deal (https://www.reikit.com/wholesaling-houses/acquisition/steps-to-a-subject-to-real-estate-deal), you'll need this signed form to perform basic due diligence and verify the information the seller gives you regarding the status and terms of the mortgage and payoff amount.

To find this form, just search online for it using the words "Third-Party Authorization to Release Information" + lender's name.

You should have your seller sign this form as soon as possible, either using an online tool such as DocuSign, or in wet ink on your first visit to the property.

Purchase and Sale Agreement

The terms of the purchase are laid out in this contract. Typically you or the attorney setting up your Agreement will want to add, at a minimum, a Subject To section with some variation of the following verbiage, "This agreement is subject to the existing mortgage".

In the next section of this post I'll talk about the most important clauses to include in this contract.

Federal, State, County & City Disclosures & Pamphlets

Each property may be subject to disclosures required by every level of government from the city, up to the federal level. These are mandated disclosures between the seller and the buyer. Some are actual disclosures, others are information pamphlets.

These can include:

Lead-Based Paint Disclosure & Pamphlet

This disclosure is required by the federal government for any residence constructed before 1978.

Natural Hazard Disclosure

States like California require this report, which provides information on official hazard zones affecting the use of the property; shows any specific property taxes and assessments, and environmental hazards in the area.

Seller's Property Disclosure

This will be the seller's disclosure of all of the defects of the property.

Compliance Forms

California requires that buildings have the required smoke detectors in each room, and that they comply with certain earthquake bracing requirements. Other locations will have similar compliance requirements.

Military Ordinance Disclosure

The seller must disclose whether the property was within one mile of an area previously identified as used for military training purposes, which may contain unexploded ordinances.

Industrial Use Disclosure

The property might be affected by nearby industrial activity such as airport noise, industrial smells, or safety concerns.

Notices & Disclosures of any Supplemental Taxes

These may be local taxes and levies on properties to finance public works and services.

Any Local Disclosures

These could be disclosures such as specific ordinances affecting the use, restrictions, and or taxation of the property.

Due on Sale Disclosure

You will add this disclosure, or if you choose, an addendum in your Purchase Agreement, to clearly explain to seller the risks in agreeing to sell the property Subject To their existing mortgage.

Specifically you want to disclose that the lender may call the loan due at any time and that you make no guarantees that you will pay the remaining balance due should that happen.

Affidavit of Liens

In this document, the seller lists any and all liens on the property, whether officially recorded or not, that they are aware of.

Affidavit of Marital Status

Records the marital status of parties to the transaction. This is especially important with separated spouses, to ensure that the Subject to sale has been approved by all parties to a marriage.

Deed

This document will be filed with the Recorder's Office or County Clerk in the county that the property is located in, and places your name on title to the property.

What is the Subject To Real Investment Strategy? (https://www.reikit.com/whc houses/acquisition/what-is- to-real-estate-investment-str

The Benefits and Risks of In in Real Estate Subj Mortgage (https://www.reikit houses/acquisitio investing-real-esta existing-mortgage

The Essential Doc Contract Clauses t Property Subject T (https://www.reikit houses/acquisitio documents-and-cc purchase-property-subject-t

The Steps to a Subject To Re Estate Deal (https://www.reikit.com/whc houses/acquisition/steps-to subject-to-real-estate-deal)

Virtual Wholesaling: Real Es Wholesaler's Guide to Scalin Nationwide (https://www.reikit.com/whc houses/virtual-wholesaling)

Top 14 Cold Calling Mistake Avoid for Real Estate Wholes (https://www.reikit.com/whc houses/acquisition/top-cold mistakes-avoid-real-estate- wholesalers)

Top 15 Seller Objections in F Estate Wholesaling (and Ho Overcome Them) (https://www.reikit.com/ove objections-real-estate-whole

How to Hire a Virtual Assista Your Real Estate Wholesalin Business (https://www.reikit.com/whc houses/how-to-hire-virtual-a real-estate-wholesaling-busi

55 Resources to Find Real E Deals Online (https://www.reikit.com/whc

Notification to Lender (If you choose to notify the lender)

This form is essentially notice to the sellers lending institution that:

1. You are taking title to the property and/or
2. There has been a change in address to a land trust address or into your name or your business name.

Limited Power of Attorney for Real Estate Transactions

This document allows you to sign documents regarding the property — and only the property — on behalf of the seller.

Important Clauses to Include in Your Purchase Contract

Now let's talk about clauses that you should add to the purchase contract to protect yourself or give yourself rights by the contract.

Of course, I am not a lawyer and this should not be construed as legal advice. Instead use this as a starting point for you to have your own conversations with your own real estate attorney.

Clauses in a contract basically spell out specific actions that must be performed, and what the seller and the buyer are specifically agreeing to, such as who is financially responsible for what, and within what time period.

Subject To Clauses

There are a number of essential clauses that you'll want to include in your purchase contract that are fairly specific to Subject To:

Subject To existing financing

List the mortgagee and the mortgage amount that you determined with your authorization at their lending institution.

Example:

"This property is being purchased "Subject To" the current existing mortgage owned by [seller's mortgage company]."

Total purchase price

Statement that you are paying X amount for the property and that if any additional mortgages, liens, judgments, or other come up on the property the seller is responsible for them.

Example:

"Buyer will pay a total of no more than X dollars for the property. If any additional mortgages, judgments, or liens, mortgages attached to property as of the time of closing, it will be the responsibility of the Seller to pay these amounts."

Seller payout

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best-real-estate-investor-crm)
Free ARV Calculator
(https://tools.reikit.com/comps)

Seller will receive X at closing or if Seller negotiates a payout, when that payout occurs and as a result of what event.

Example:

"Buyer shall pay the balance of the purchase price agreed to, amounting to X dollars, within X years of date of closing. Seller will receive approximately X dollars, on or before [date]."

Alternatively,

"Seller will receive no cash at closing."

Seller comfort clause

If you choose to do so, have a clause stating that should the buyer fail to pay on the mortgage payments for X amount of days, the seller can ask for the property to be returned. This gives the seller assurance that they have some control over their credit risk.

Example:

"Buyer is purchasing the property "Subject To" the existing mortgage. In regards to that mortgage, should Buyer fail to make any payment due, and should Buyer continue to fail to make the payment for more than thirty (30) days after the due date, upon written request from Seller, Buyer will convey the property back to the Seller."

Other Important Clauses to Include

Assignability clause

Especially important to wholesale investors who may want to assign their Sub 2 contract.

Example:

"Buyer may assign this Agreement."

Alternatively, you can put after your name on the contract, "and/or assigns."

Marketing clause

If you are marketing the property to other investors, then make sure the seller is abundantly clear on that.

Example:

"Seller agrees that property may be marketed to other prospective buyers. Buyer may place signs on the property or use any other advertising method at their disposal."

Access to Property

Seller will allow buyer access to the property during reasonable hours for the purpose of showing property to prospective buyers.

Example:

"Seller agrees to provide reasonable access to the property upon request or with [X] notice, prior to closing, for the purpose of showing property to prospective Buyers."

Possession clause

If sellers are required to leave by the closing date, or some other date agreed upon, you should have that stated in the contract. Don't forget to detail the condition you agreed the property will be left in, and/or what happens if the sellers have not vacated by that date.

Example:

"Upon closing or [insert date] Sellers will be required to vacate property, and such property will be free of debris and broom clean condition unless otherwise agreed upon by the parties."

Earnest money clause

This clause states what happens to your earnest money deposit if you decide to exercise any of these clauses and decide not to move forward with a property. Ideally you would want to get every penny back.

Example:

"If earnest money deposit or payment to Seller be given, Buyer shall receive a full return of any earnest money deposit or payment to Seller, should Buyer exercise any contingency."

Acknowledgement Clauses to Ensure Full Disclosure

Big profit

Make sure you add a section in the contract that spells out for the seller's acknowledgement that you are expecting to make a large profit on the property.

Example:

"Buyer is purchasing the property with the intent to sell, lease, or rent such property for a large profit."

Due-on-sale clause

These acknowledgments should be included and signed by seller:

1. Acknowledgement that the underlying loan will remain in seller's name and on seller's credit
2. Acknowledgment that loan will not be paid off at closing, but will be paid monthly to lender by buyer
3. Acknowledgment that lender may call the loan due in full at any time, if lender documentation contains a Due-on-Sale clause
   a. Acknowledgement that should the Due-on-Sale clause be enforced by lender, lender has a right to call loan due immediately and may force foreclosure
   b. Acknowledgement that should the lender force foreclosure, a subsequent Notice of Default will appear on seller's credit report
   c. Acknowledgement that should the lender force foreclosure, buyer's title will be extinguished (all rights to the property will become non-existent)

Details, Details, Details

In addition to the preceding clauses, with Subject To transactions you want to include in your contract **exactly** every detail that you negotiated in clear language, as well as seller's loan information, for example including these if applicable:

1. Your offer price
2. Closing date – make this "on or about [date]" for the most flexibility, or "a date not more than 30 days after the expiration of the [inspection period, appraisal, etc.], or such other date mutually agreed upon in writing by both parties."
3. Title company or closing attorney named by buyer
4. What will be included (and *not* included) in the sale in terms of fixtures and personal property — it would be easiest to specify that if not specifically excluded, then it is included in the sale
5. That escrow is held by buyer's attorney, title company, escrow agent, or another party named by buyer

Specific to the financing:

1. Loan payoff amount
2. Monthly mortgage payment amount
3. Interest rate of loan
4. Taxes and insurance, if applicable
5. How many months negotiated for buyer to pay the monthly mortgage, if negotiating for the loan to stay in place for a number of months or years
6. Details as to when buyer has to pay off mortgage

If it's not in writing and not included in your agreement, then it never existed, so you must be sure to include all possible clauses. Keep the language simple and make sure *you* know what every clause means so that you can easily explain it to the sellers.

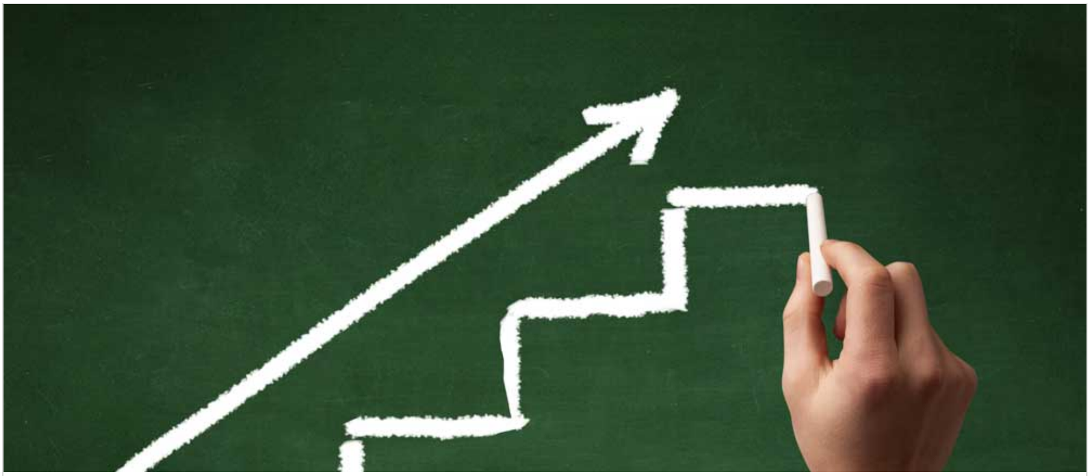
Since clauses are virtually unlimited in scope, and unique to every property and seller, getting your contracts drawn up by an attorney is worthwhile; your lawyer may suggest additional protective clauses that you haven't thought of.

Summary

In this post I listed many of the essential documents that you'll likely need to enter into a Subject To real estate transaction. I also explained and gave examples of important clauses, some specific to Subject To and others that are protective for you and even the seller. You can use these to draw up your contract, get it double-checked by a real estate attorney, and be well on your way to profiting with your Subject To investing strategy.

Ready to get started with finding Subject To sellers (https://www.reikit.com/wholesaling-houses/acquisition/how-to-market-to-subject-to-sellers)? In the next post, we cover how to market effectively to Subject To sellers by learning **the four key elements of how to build a Subject-To email or text marketing campaign, and the three simple steps you can take to get started with marketing specifically to Subject To quickly: How to Market to Subject-To Sellers (https://www.reikit.com/wholesaling-houses/acquisition/how-to-market-to-subject-to-sellers)**

The Steps to a Subject To Real Estate Deal



In Part 1 (https://www.reikit.com/wholesaling-houses/acquisition/what-is-subject-to-real-estate-investment-strategy) of this series on how to transact Subject To deals, I explained exactly what is Subject To investing and how you can both profit from them and help a distressed homeowner as well.

Part 2 (https://www.reikit.com/wholesaling-houses/acquisition/benefits-risks-investing-real-estate-subject-to-existing-mortgage) outlined the risks and benefits of entering into a subject to transaction that affect not only you, but also the seller, and how to mitigate them.

In this post, I break down the steps necessary to a successful Subject To real estate deal, from verifying seller facts to closing.

The steps to acquire a property Subject To an existing mortgage are:

1. Perform initial due diligence on the seller and property
2. Verify the facts
3. Determine your exit strategy and offer
4. Prepare your purchase documents
5. Finalize the transaction
6. After the closing

Let's start with the first step, the initial contact.

Perform initial due diligence on the seller and property

When you first get a distressed seller lead, the first step is to perform a through due diligence of that seller's situation, and determine the condition and value of the property.

In this section I cover: what information to get from the seller, determining a property's value, what you should face when you visit the property, how to get the facts from the lender, and other information you will need to obtain, to evaluate a deal and determine your offer.

First, get the facts from the seller

Prior to stepping foot on the property you need to understand the seller's situation. You will want to find out not only the reason for their distress, but also their level of motivation.

With the seller on the phone, or in person, ask them who their mortgage lender is, how many payments they are behind on, what the latest mortgage payment amount is, the current loan balance, and any known arrears or liens on the property, such as tax liens or mechanics liens.

If you are speaking with the seller in person, you can ask them to sign an Authorization to Release Information form that will give you the ability to verify the information they gave you with their lender.

This will be one of the documents described in the next post about the documents necessary for a Subject To transaction.

Now that you have the seller's facts, it's time to calculate the property's After Repair Value (ARV), or what the property would sell for on the open market after it has been rehabbed.

Determine the After Repair Value

There are a two major parts to determining the property's value.

The first is to select appropriate rehabbed comps that are within the same neighborhood, that sold recently, and that are as much like the property that you are looking at.

The second part is to perform a thorough sales comparison analysis, adjusting those comps for feature values such as beds, baths, garages and pools.

> *This guide explains exactly how to do that, by finding comps and adjusting them to accurately calculate ARV:*
>
> *ARV Real Estate Meaning: How to Calculate It Quickly & Accurately (https://www.reikit.com/wholesaling-houses/deal-analysis/arv-real-estate-meaning-calculate-after-repair-value)*

You will need to make sure that you take your exit strategy into account when you are determining these adjustments.

For example, if you are intending on rehabbing the property for resale to a homeowner, then you will want to look at recently rehabbed properties for valid comparison. On the other hand if you will be renting the property out, or using a lease option strategy, then it may be better compared to other rental properties in the area.

Get your initial documents signed

One of the first documents that you will need to get the seller to sign in order to perform more in-depth fact checking is the Third-Party Authorization to Release Information form, which will allow you to contact the seller's lending institution and creditors.

This form should be readily available on the lender's website or search online for it using the words Third-Party Authorization to Release Information + lender's name.

The Step By Step Guide To F
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(https://www.reikit.com/whc
houses/marketing/guide-to-
facebook-ads-for-motivated-
leads)

Facebook Retarge
Guide for Real Esta
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houses/marketing
retargeting-guide-f
investors)

34 Actionable Way
Cash Buyers List
(https://www.reikit
houses/marketing
cash-buyers-list)

Wholesale Propert
The Critical Components of
Wholesale Deal Sheet to Sel
Contracts
(https://www.reikit.com/whc
houses/marketing/wholesal
property-marketing-tips-the-
components-of-a-wholesale
sheet-to-sell-more-contracts

Wholesale Real Estate Acquisit
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Vacant Property List Market
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(https://www.reikit.com/mot
seller-leads/vacant-property

Absentee Owner List Market
Real Estate Wholesalers
(https://www.reikit.com/mot
seller-leads/absentee-owner

How to Market to Subject-To
(https://www.reikit.com/whc
houses/acquisition/how-to-r
to-subject-to-sellers)

What is the Subject To Real
Investment Strategy?
(https://www.reikit.com/whc

You should get your seller to sign this form via DocuSign or using any other electronic signature platform, which will save you a ton of time in performing your lender due diligence.

If you can't get this done electronically, you should bring this form with you when you visit the property.

Visit the property

So far, you understand the seller's financial position and motivation, and you have the property's ARV.

You're still missing a big piece of the puzzle, and that piece is the repair items that you will find when you visit the property.

Determine the repairs necessary

When you visit the seller's home, you'll need to walk the property and note any needed repairs.

Personally, when I first walk a property I get so excited with the potential of a deal, that if I don't have a checklist with me, I always forget to identify half the necessary items.

This is why I use this Rehab Walkthrough Estimation Checklist (https://www.reikit.com/rehab-walkthrough-estimation-checklist) link to keep me focused on noting the condition of the property, making sure that I account for all of the major systems that may or may not need to be repaired.

Additionally, if you don't know what to look for, you should consider picking up a copy of this book, used by home inspectors to prepare for their exams:

> *The NHIE Home Inspection Manual*
>
> 
>
>
> *(https://www.amazon.com/gp/product/0996451803/ref=as_li_tl?ie=UTF8&camp=1789&creative=9325&creativeASIN=0996451803&linkCode=as2&tag=rfaf-20&linkId=82d2b19fc3e192a43f2d03a7ec1aef81)This manual was developed by the Examination Board of Professional Home Inspectors with technical information on the inspection of the major components and systems of a property.*
>
> *Show On Amazon (https://amzn.to/2JFwLiB)*

Determine the cost of repairs

Once you have noted the repairs that need to occur, you should estimate their costs.

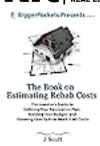
If you have never estimated rehab costs before, then here are a number of resources available to you that will get you a long way to doing so:

First, if you haven't already, you should read this post from the Flipping Guide:

> *How to Estimate Real Estate Rehab Construction Costs (https://www.reikit.com/house-flipping-guide/how-to-estimate-rehab-construction-costs)*

Next, in the Resources menu, I list several books that you should read. Specifically you should have already read:

houses/acquisition/what-is-to-real-estate-investment-st
The Benefits and Risks of In in Real Estate Subject To an Mortgage (https://www.reikit.com/wh houses/acquisitior investing-real-esta existing-mortgage
The Essential Doc Contract Clauses t Property Subject T (https://www.reikit houses/acquisitior documents-and-c purchase-property
The Steps to a Sub Estate Deal (https://www.reikit.com/wh houses/acquisition/steps-to subject-to-real-estate-deal)
Virtual Wholesaling: Real Es Wholesaler's Guide to Scalin Nationwide (https://www.reikit.com/wh houses/virtual-wholesaling)
Top 14 Cold Calling Mistake Avoid for Real Estate Whole (https://www.reikit.com/wh houses/acquisition/top-cold mistakes-avoid-real-estate-wholesalers)
Top 15 Seller Objections in R Estate Wholesaling (and Ho Overcome Them) (https://www.reikit.com/ove objections-real-estate-whole
How to Hire a Virtual Assist Your Real Estate Wholesalin Business (https://www.reikit.com/wh houses/how-to-hire-virtual-a real-estate-wholesaling-busi
55 Resources to Find Real E Deals Online (https://www.reikit.com/wh houses/acquisition/55-reso find-real-estate-deals-online
35 Relationships To Help Yo More Houses To Flip



J Scotts Book on Estimating Rehab costs (https://www.amazon.com/Book-Estimating-Rehab-Costs-BiggerPockets/dp/0998973715/ref=as_li_ss_il?s=books&ie=UTF8&qid=1541448331&sr=1-1&keywords=j+scott+book+on+estimating+rehab+costs&linkCode=li1&tag=rfaf-20&linkId=f1fb4268021fc7efe848799f871915f0)I cannot recommend this book highly enough for getting your estimating legs.

Show On Amazon (https://amzn.to/2Dnx5Cc)

Verify the facts

The next step in the process is to verify all of the information that the seller has told you.

Get the facts from the lender

With your signed Third-Party Authorization to Release Information form, call the lender, who will ask you to email or fax the form to them before they let you discuss the seller's account.

You will want to request the history of the loan, the balance remaining, any arrears, escrow balance, and payoff documentation.

Once you have received the information from the lender, compare it to what the seller provided to you to make sure that the information matches up. If there are differences between the lender's current information and the seller's information, such as the number of months behind on payments, payment amount and so on, make note of them so you can properly calculate your offer.

Run a title search

Perform a preliminary title search, or have a title company do a preliminary search, to fully understand who are all the owners of the property, and the chain of title. The title search will reveal any other liens or taxes on the property, such as Federal IRS Liens, Tax Liens, Mechanics Liens, HOA Liens, or Code Enforcement Liens, among others.

Check owed balances on utilities and property taxes

The seller's water, electric, sewer, and other utilities accounts as well as alarm companies and the like can have existing balances owed. When utilities are behind and get sent to a credit-reporting agency, there may also be a lien on the property for the amount.

You should call all of the utilities to make sure the payments are current.

Also check the property tax amount, which is usually public record and can be found online using the Assessor's Parcel Number or some other identifier, and that property taxes have been brought up to date, or note when the next payment is due.

With the seller's current liabilities, the property's ARV, and the estimated repair costs written down, you'll have a rough estimate of what kind of deal you're looking at.

Identify potential costs

Next let's talk costs, specifically your costs when it comes to executing a Subject To transaction.

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to-help-you-find-more-house

29 Ways to Find Off-Market
Wholesale Real Estate Deals
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The True Cost Per
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ARV Real Estate Meaning: H
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How to Estimate Real Estate
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Software (https://www.reikit.com)

Top 14 Best Real Estate Wholesali
Software Tools to Power Your Bus
2023
(https://www.reikit.com/resources
real-estate-wholesaling-software-t
features)

Real Estate Investor CRM Softwar
How to Choose the Best One
(https://www.reikit.com/how-to-ch
best-real-estate-investor-crm)

Free ARV Calculator
(https://tools.reikit.com/comps)

Free 70 Percent Rule Calculator
(https://tools.reikit.com/70-percer
calculator)

The Best Real Estate Wholesaling
Podcasts in 2023

While Subject To is often touted as a 'no money required' strategy, there are many cases in which you'll find that you do need *some* funds to carry the property.

For example, you many need money to:

- Pay off arrears on the mortgage to get it caught up
- Pay seller part of their equity in the property
- Pay closing costs such as:
  - Closing attorney
  - Transfer fees or taxes
  - Escrow fees
  - Title insurance
- Make the payments after you've transferred title and are looking for a buyer

Once you have identified all of those costs, you can start to formulate your exit strategy and draw up your offer.

Determine your exit strategy and offer

It is the seller's financial situation that will determine your available exit strategies, and thus the details of the offer.

Although I devote the final post to showing a few examples of seller situations and how those will impact your exit strategies, for now you can begin thinking about the following basic situations. These will guide you as you start formulating your exit strategies to create a win-win offer that gets the seller from under the house, and makes sure that you profit:

- In some cases, you can take title to a property Subject To, without putting up *any* of your own money. In fact, in situations where the seller is behind on payments, they may agree to catch up the loan before transferring the deed.
- If the seller owes more than the property is worth, you could negotiate that they give *you* money to take a problem property off their hands.
- In many cases, *you* may need to pay the seller. This could be, for example, to pay for some of their equity in the property, if they owe less than what the property is worth.

You can review your potential exit strategies in the first post (https://www.reikit.com/wholesaling-houses/acquisition/what-is-subject-to-real-estate-investment-strategy), to see how each of these situations will have an impact on your exit strategy, and your offer.

Prepare your purchase documents

As with most things involving the law, the basics of contracts would take up several chapters, so I will not go into those here. I will, however, go into detail about some of the most important documents that you will need as part of your purchase, in the next post.

Specifically, you will need a purchase agreement that is valid and enforceable in your state.

For this reason, I strongly recommend that you always have your Subject To contracts and documentation created by a real estate attorney in your jurisdiction that is also familiar with Subject to transactions.

In general, your purchase contract will serve two major purposes:

1. To present the offer and exchange of value to your seller
2. To disclose, disclose, disclose the risks to the seller

In the next post, I will go into more detail about the major clauses that you should have your attorney include in your contract, especially the disclosure of your intent to make a profit, and the risks of the due-on sale clause.

If your offer is accepted, now it's time to close.

Finalize the transaction

Title company, closing attorney, or the kitchen table?

Every state has different laws as to how to close real estate transactions. Some require a title company, others require an attorney at close, some allow you to close at the seller's kitchen table, and some allow all of those closing methods.

If you are just starting out with the Subject To strategy, I don't recommend kitchen table closings, even if they are valid in your state. You'll want to close using a closing attorney or through a title company; find out which (if any) might be required in your state.

> *This PDF from First American Title, shows a good outline of some of the documents and costs that you may need in each state and whether an attorney is required at closing:*
>
> *Real Estate Customs Guide by State (https://www.reikit.com/wp-content/uploads/Real-Estate-Customs.pdf)*

In general, of the documents that will be required for closing, some will be recorded, and some you will keep for your records. Most documentation will need to be signed by the sellers, some will need to be notarized, and others just witnessed.

If the seller is married, you should always make sure that the spouse signs all of the documents.

A great title company or attorney that is well versed in these transactions will guide you through the closing process from A-Z and smooth out any bumps. There are always bumps.

You might find when you first start calling around for a title company, that many do not understand how to process a Subject To. The only difference between a traditional closing and a closing Subject To is that the lender is not receiving a payoff and there is no new mortgage being prepared for you, the buyer, and so the title is encumbered with the original financing.

Some title companies will not perform a Subject To transaction, period, while others do them frequently, so you may need to call several to find one that performs these.

Your title company does matter, so try to have this in place *before* you start marketing for sellers. Ask for company recommendations at Real Estate Investment Clubs in the areas where you are finding motivated sellers.

What happens after you close and your documents are sent for recording?

After the closing

Once the transaction is complete you'll need to do the following:

Keys

You should have exchanged these at closing. You'll need to make sure that the seller gives you any keys and garage door openers as well as any alarm codes. After closing, you'll need to get a locksmith to re-key all of your doors.

Cancel seller's insurance.

Using your Limited Power of Attorney, cancel the seller's homeowner's insurance policy, but make sure you change the mailing address to your address before canceling.

This will ensure that you, and not the seller, will get proceeds should the seller make a claim against the property. Alternatively, you can, at closing, have the seller sign a letter of insurance cancellation, requesting that any unearned premiums be sent to your or your company's address.

Obtain your own insurance.

You will need to create a new policy, specifically a non-owner occupied landlord policy. You will want to be listed as the first named insured, with the existing mortgage company as the mortgagee. Add the seller as additional insured.

Our insurance provider (NREIG) (https://nreig.com/a/citylightllc/), recommends that you should always have your own policy on the property to avoid a denied claim because the primary insured is no longer the owner.

Change of address and phone number.

If you are sending the lender a letter informing them of the title transfer, request that the seller sign the change of address form from the lender, making your address the new billing address, as well as your phone number.

Lender's Online Payment Information

Get the lender's online payment methods, such as a payment portal, or any applicable paper methods so that you can begin to make payments.

Summary

Subject To agreements can seem complex on the surface, but the steps needed to execute this creative method of investing in real estate are fairly straightforward. In this post I covered how to vet information from the sellers, a summary of how to perform due diligence on the property, where you should perform the closing, and what to do after the closing.

In the next part, The Essential Documents and Contract Clauses to Purchase a Property Subject To (https://www.reikit.com/wholesaling-houses/acquisition/essential-documents-and-contract-clauses-to-purchase-property-subject-to), I talk about the specifics of the Subject To purchase agreement, and some of the most important disclosure items to include, so as to keep you out of trouble.

PHOTO: THE BALANCE / SABRINA JIANG

Buying a property "subject-to" means a buyer essentially takes over the seller’s remaining mortgage balance without making it official with the lender. It’s a popular strategy among real estate investors. When interest rates rise, it may also be an attractive financing option for general homebuyers.

Learn more about buying subject-to, how it works, and the pros and cons of this strategy.

Key Takeaways

- Buying subject-to means the homebuyer is taking over the mortgage payments with no official agreement in place with the lender.
- Buying a subject-to home is attractive to buyers if they can get a lower interest rate by taking over payments.
- This arrangement poses risks for the buyer if the lender requires a full loan payoff or if the seller goes into bankruptcy.

What Does Buying "Subject-To" Mean in Real Estate?

Buying subject-to means buying a home subject-to the existing mortgage. It means that the seller is not paying off the existing mortgage. Instead, the buyer is taking over the payments.[1] The unpaid balance of the existing mortgage is then calculated as part of the buyer's purchase price.

buyers would then make payments on the remaining $50,000.

Under a subject-to agreement, the buyer continues making payments to the seller's mortgage company. However, there's no official agreement in place with the lender. The buyer has no legal obligation to make the payments. Should the buyer fail to repay the loan, the home could be lost to foreclosure. However, it would be in the original mortgagee's name (i.e., the seller's).

Reasons a Buyer May Purchase a Subject-To Property

The biggest perk of buying subject-to real estate is that it reduces the costs to buy the home. There are no closing costs, origination fees, broker commissions, or other costs. For the real estate investor who plans to rent or re-sell the property down the line, that means more room for profits. [2]

For most homebuyers, the primary reason for buying subject-to properties is to take over the seller's existing interest rate. If present interest rates are at 4% and a seller has a 2% fixed interest rate, that 2% variance can make a huge difference in the buyer's monthly payment. For example:

> A $200,000 mortgage at a 2% interest rate is amortized at a payment of $739.24 per month.
>
> A $200,000 mortgage at a 4% interest rate is amortized at a payment of $954.83 per month.
>
> The monthly savings to a buyer under these circumstances is $215.59 or $2,587.08 per year.

Another reason that certain buyers are interested in purchasing a home subject-to is they might not qualify for a traditional loan with favorable

> **Note**
>
> Buying subject-to homes is a smart way for real estate investors to get deals. Investors may use county records to locate borrowers who are currently in foreclosure. Making them a low, subject-to offer can help them avoid foreclosure (and its impact on their credit) and result in a high-profit property for the investor.

3 Types of Subject-To Options

Not all subject-to loans look the same. Typically, there are three types of subject-to options.

A Straight Subject-To, Cash-To Loan

The most common type of subject-to occurs when a buyer pays in cash the difference between the purchase price and the seller's existing loan balance. For example, if the seller's existing loan balance is $150,000, and the sales price is $200,000, the buyer must give the seller $50,000. [3]

A Straight Subject-To With Seller Carryback

Seller carrybacks, also known as "seller financing" or "owner financing," are most commonly found in the form of a second mortgage. A seller carryback could also be a land contract or a lease option sale instrument.

For example, suppose the home's sales price is $200,000, with an existing loan balance of $150,000. The buyer is making a down payment of $20,000. The seller would carry the remaining balance of $30,000 at a

separate payment at a different interest rate to the seller.

Wrap-Around Subject-To

A wrap-around subject-to gives the seller an override of interest, because the seller makes money on the existing mortgage balance. A wrap-around is another loan that contains the first, and it can be seller-financed.

Using the example above, suppose the existing mortgage carries an interest rate of 2%. If the sales price is $200,000, and the buyer puts down $20,000, the seller's carryback would be $180,000.

By charging the buyer 3%, the seller makes 1% on the existing mortgage of $150,000 and 3% on the balance of $30,000. The buyer would pay 3% on $180,000. [3]

Subject-To vs. Loan Assumption

In a subject-to transaction, neither the seller nor the buyer tells the existing lender that the seller has sold the property. The buyer begins to make the payments and does not obtain the bank's permission to take over the loan.

> **Warning**
>
> Lenders put special verbiage into their mortgages and trust deeds that give the lender the right to accelerate the loan and invoke a "due-on" clause in the event of a transfer. It means the loan balance is due in full, and that could put the new homeowner at risk of losing the home if the lender finds out about the transfer. [4]

making the payments.

But banks can exercise their right to call a loan, due to the acceleration clause in the mortgage or trust deed, which is a risk for the buyer. If the buyer doesn't have the cash in hand to pay off the loan upon the bank's demand, it could initiate foreclosure.

Loan assumption, on the other hand, is different from a subject-to transaction. If a buyer makes a loan assumption, the buyer formally assumes the loan with the bank's permission. This method means that the seller's name is removed from the loan, and the buyer qualifies for the loan, just like any other kind of financing.

Generally, the bank charges the buyer an assumption fee to process a loan assumption. The fee is much less than the fees to obtain a conventional loan.[5] VA loans and FHA loans allow for a loan assumption. However, most conventional loans do not.[6] [7]

Pros and Cons of Buying Subject-To Real Estate

Subject-to properties mean a faster, easier home purchase, no costly or hard-to-qualify-for mortgage loans, and potentially more profits if you're looking to flip or resell the home.

On the downside, subject-to homes do put buyers at risk. Since the property is still legally the seller's liability, it could be seized should they enter bankruptcy. Additionally, the lender could require full payoff if it notices that the home has transferred hands. There can also be complications with home insurance policies.[8]

Pros	Cons
Fewer upfront costs	

Easier to qualify

May mean more profits for investors

May mean more favorable interest rates

Lender could accelerate the loan and require full payoff

Insuring home could be complicated

The Bottom Line

While a subject-to sale may seem desirable for some, it comes with risks for buyers and sellers. Before entering into this type of agreement, you should understand the various options along with their benefits and drawbacks.

Frequently Asked Questions (FAQs)

How do you find subject-to real estate deals?

To find subject-to sellers, you need to look for homeowners selling distressed properties, such as foreclosures, short sales, and auctioned homes. You can find these with online search tools or with the help of a real estate agent.

Why would a seller agree to a subject-to mortgage?

Sellers agree to subject-to mortgages when they are desperate to sell a home quickly. They may be in danger of foreclosure or unable to keep up with their mortgage payments. It may not be an ideal scenario, but it can make for a quick sale by keeping the bank out of the equation.

Subject To Real Estate: The (ULTIMATE) Guide

creative financing real estate real estate investing real estate investor subject to Feb 22, 2022

Subject to real estate is a type of real estate transaction. It can be mutually beneficial for both the buyer and the seller.

While subject to real estate may seem intimidating or confusing at first, it is, in many ways, simpler and more accessible than the more traditional ways of buying or selling a property.

What Is Subject To Real Estate?

"**Subject to**" real estate refers to the transaction of a property while maintaining the integrity of the existing loan on the parcel.

In subject to real estate, **the investor** purchases the property and agre to make payments on the existing loan of the house. The seller gives t title to the investor.

This loan stays in the seller's name, but the buyer makes the **mortgag payments** on behalf of the seller, and the lender does not know about the property's transaction.

The Types Of Subject To Real Estat

There are three primary kinds of subject to real estate transactions.

Cash To Loan Subject To

A **cash to loan subject to** is the most common form of subject to.

For this type of sale, the investor pays the seller the difference between the sales price and the mortgage balance in cash, while taking over the mortgage payments.

For example, if both parties agree that the property is worth $325,000, but the mortgage remaining is only $275,000, the investor will pay the seller $50,000 in cash and cover the remaining mortgage.

Usually, though not always, properties sold under these circumstances are in (or are about to be in) foreclosure.

Seller Carryback Subject To

A **seller carryback subject to** is the second most common form of a subject to. You're likely to have already heard of this type, just in different terms. This type of transaction is often called "owner financing" or "seller financing."

This works as an additional form of financing to be used if the investor's lender won't allow them the total funding that is needed for the purchase of the property.

The investor will get a mortgage for as much of the property's value as possible and then make payments to the lender in the form of a traditional mortgage, as well as payments to the seller in the form of a seller carryback subject to.

The seller never gives the investor the difference in cash. Rather, they a not paid in full for their house and instead slowly receive the differenc in payments directly from the investor.

The seller is in control of the terms of this transaction. They generally control the interest rate, downpayment, and loan length. Usually, the original homeowner wants the investor to put down a downpayment c five to twenty-five percent and pay off this portion in five years or less

The official mortgage with the lender can take much longer to pay off and will likely be on different terms with different stipulations, down payments, etc.

Wrap Around Subject To

A **wrap-around subject to** is the least common type and for a good reason. The loan's interest rate is based on the original mortgage loan but with additional interest on top of that.

Since the seller has to pay interest on their original mortgage from their lender, they ask the investor to pay an additional, proportional interest rate to cover that.

If the original homeowner's mortgage is 4%, the seller will likely ask th investor to pay 6% on the carryback. At low-interest rates, this isn't mu of an issue. If, however, the seller had a higher interest rate, to begin with, then this is not an ideal situation for the investor.

How To Find Subject To Properties For Sale

You will likely find subject to deals wherever you can find **distressed properties** or **motivated sellers**.

Connect with a real estate agent for assistance, look up soon-to-be foreclosed, auctioned, or short-sale properties through public records or online, and speak directly to the distressed homeowners.

Here are a few websites to help you get started:

- The Multiple Listing Service ("**The MLS**")
- **PropStream** (use our link for a free 7-day trial!)
- **Foreclosure.com** (here is our **review of Foreclosure.com**)
- **Zillow.com** (filter the results to only show pre-foreclosures)
- **Redfin.com**
- **Mashvisor.com**
- **RedX.com**
- Your local newspaper. Your local newspaper is required to publis the addresses of houses that are in the foreclosure process.
- **Real Estate Wholesalers**. Real estate wholesalers will have acces to **pre-foreclosure** listings and can get you in touch with distressed property owners.
- **Real Estate Attorneys**. Your local attorney will also have access t a list of pre-foreclosure and foreclosure properties.
- **Driving for Dollars**. You can also drive around neighborhoods a speak to homeowners; you never know who may be interested ir selling their home in a subject to transaction.

Subject To Real Estate Benefits

There are three primary benefits for investors to utilize subject to, and two significant benefits for sellers. Here they are:

Subject To Pros For Investors

- **No Credit Checks.** If you're young, don't have credit, or don't have a favorable credit score, this is a great way to get your foot in the door as a new real estate investor. You don't have to have your credit checked at all for subject to real estate. And because you are using someone else's existing mortgage, you may get a better interest rate, even if you did have a decent credit score.
- **It's Cheaper.** Usually subject to sales have low or no closing costs. You can also benefit from fewer up-front costs, no bank fees, no realtor commissions, title companies, or loan officers involved.
- **It's a Quick Way to Build Equity and Grow Your Income.** Subject to properties gain equity faster than other real estate investing strategies because some of the mortgages is already paid off. It's also a quick process to close on a subject to property because there's little red tape involved. If you like to flip houses, you can get started much quicker with this method.

Subject To Pros For The Selling Homeowner

- **It's a Quick Sale.** Selling their place using subject to allows them to dispose of a property quickly so they can move onto something else.
- **It may save their financial life.** If the homeowner is facing foreclosure or needs cash in a hurry, subject to is a great solution. Foreclosure can be avoided because the investor takes over the foreclosure payments and keeps that off the seller's record. They can also get some cash pretty quickly from the investor, especially if the investor does a cash to loan subject to.

Subject To Real Estate Cons

No type of sales transaction is perfect, and that includes subject to rea estate.

Untrustworthy Sellers

If the homeowner (seller) doesn't take the money that the investor pay them to their lender or mortgage company, the investment property could still be foreclosed. Yes, this means that the investor cou be doing everything right and paying the monthly payment, and the house could still be foreclosed on.

The investor is trusting that the seller will continue to pay down the mortgage balance.

Untrustworthy Investors

Likewise, the seller has to trust that the investor will continue making payments on the subject to real estate. If the new buyer stops paying, the seller will have to continue making payments to the lender. The se will also have to pursue legal action in order to regain their title to the property.

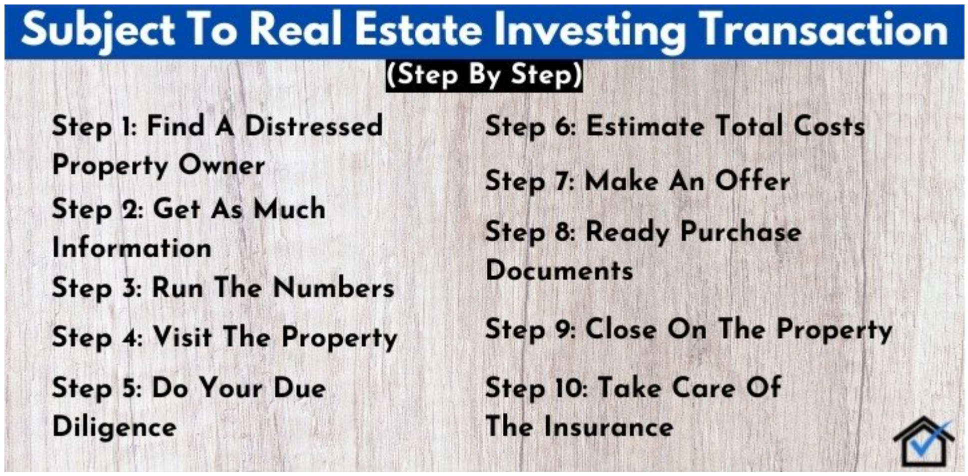
Due On Sale Clauses

Due on sale clauses would require the seller to pay back the bank the amount of the mortgage loan once the subject to agreement is made.

High-Interest Rates

If the original homeowner had bad credit when they bought the property, the interest rates could be high. If the seller's credit is bad, then the investor will have to pay high-interest rates during the subject to transaction.

How To Do A Subject To Real Estate Investing Transaction (Step By Step)



Step 1 - Find A Distressed Property Owner Willing To Do A Subject To Sale

Again, here are some great places to start looking:

- Mashvisor.com
- Zillow.com (filter the results to only show pre-foreclosures)
- Foreclosure.com
- RedX.com
- Your local newspaper
- Real Estate Wholesalers
- Real Estate Attorneys
- Driving for Dollars
- The MLS

Step 2 - Approach the Homeowner Anc Get As Much Information As You Can

Be kind and respectful. This may be a challenging time for the homeowner, so be on your best behavior, be thoughtful, respectfu and kind.

Figure out why the homeowner may be in distress and how motivated they are to sell.

Ask who their lender is, the current loan balance, the mortgage payment amount, and how many payments they're behind. It would b best to ask about tax liens and mechanic liens.

Get the seller to sign an "Authorization to Release Information" form. This will allow you to double-check all of the above information they gave you with their mortgage lender. You're not doing this to test the homeowners, but rather to make sure you can offer the very best, most fair offer on their home.

Step 3 - Run The Numbers

Now you need to calculate the "**After Repair Value**," figure out how much it will cost to rehab the property, and also plan out your exit strategy.

Compare other properties in the neighborhood to the property subject to the sale.

You should also run a thorough sales comparison analysis and adjust the comps to reflect the property's features, square footage, and the number of bedrooms and bathrooms in the house.

What's your exit strategy? Do you want to sell the house for more cash flow, turn it into a rental property, or offer a **lease option**? If selling it, compare to other local sales. If renting it, compare it to other rentals in the area. If leasing it, compare it to nearby leases.

Step 4 - Visit The Property

Get permission from the homeowners and then visit the house. This will fill in the blanks on repairs you'll need to make, the condition of the property, and how long it will take you to fully rehab the home. Take pictures if you've been given permission, and don't forget to bring your checklist. We'll provide you with that checklist down below.

If you can get a home inspector to tag along with you, that's even better.

After your visit through the property, you may need to revisit step three and adjust your estimates.

Step 5 - Do Your Due Diligence

The experienced investor knows to never, ever skip this step. This isn't exactly a fun part of real estate deals, but it is crucial to protect yourse and ensure a smooth, profitable sale.

Authorization to Release Information

If you haven't already, get the seller to sign an "Authorization to Relea Information" form. Once this form is signed, call their lender and fax o email this form to them. Once they see you have the authorization, the lender will give you lots of really important information regarding your potential new property.

Title Search

Have a **title company** run a preliminary search. This will tell you who t complete list of owners are, and if there are any liens or owed taxes or the property. During this search, you may find that tax liens, mechanics liens, HOA liens, code enforcement liens, or Federal IRS liens are owed against the property.

Utility Bills and Property Taxes

You should also call all of the local utility companies to get informatior on the property.

Here are utility companies you should be checking with to see if there are any past due bills:

- Water Company
- Electric Company
- Sewer Company
- Trash Company
- Internet, Cable, Landline Company
- Alarm System Company

After checking on the utilities, check the property tax amount. This will let you know when and what to expect to pay in property taxes once the parcel is yours. It will also let you know if the current homeowner is behind on any of these taxes and how much money will be owed once you make the purchase.

Step 6 - Estimate The Total Costs

You will likely to need pay at least some amount of money in order to carry the property.

You may need to pay:

- the seller part of their equity, perhaps however much of the loan they've already paid off.
- arrears on the mortgage so that it is no longer behind.
- closing costs, such as transfer fees, transfer taxes, **escrow fees**, closing attorney, title insurance.

Step 7 - Make An Offer To The Homeowner

Using all of the above information that you've gathered, make a fair offer to the homeowner for their property.

You may offer to take over payments for the homeowner without paying them any cash.

You may offer to take over payments for the homeowner and pay them some lump sum of cash to cover their equity in the property. Usually, this is because they owe less than what the property is worth.

You may also offer to take over payments for the homeowner and negotiate that they pay you to take this property off their hands. For instances like this, it's usually because the owners owe a lot more mon on the mortgage than what the property is worth.

It's always a good idea to have a mentor or real estate attorney help y draft an offer. They can accurately tell homebuyers if the existing loan balance is appropriate and what a fair purchase price should be.

Step 8 - Organize And Ready Your Purchase Documents

For this step, you need a purchase document that is enforceable in you state. At the bare minimum, have your subject to agreement checked l a real estate attorney. Better yet, have your attorney write up the document for you.

Your real estate attorney is already knowledgeable with loan terms, a fair sales price, and how to make a proper loan assumption. They are good people to have on your team.

Step 9 - Close On The Property And Ge Your Keys

Depending on the state, you can finalize the property transaction at home with the seller, at a title company, or with a closing attorney. Wh "kitchen table" closings are valid in some states, they are almost never good idea. It's wise to stick to attorneys and title companies for the m financial safety.

Most closing documents will need to be notarized, which is why kitche table sales are such a bad idea.

All owners will need to present to sign the documents, and that includes spouses. If an owner has died, a death certificate will likely be needed to make the transaction.

At closing, you will receive your new investment property's keys.

Step 10 - Take Care Of The Insurance

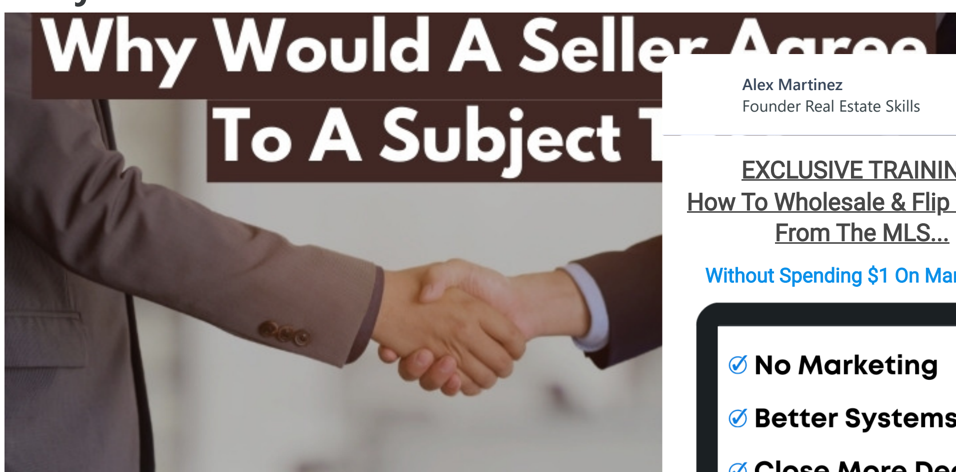
This is a two-part step.

First, you will need to cancel the seller's insurance. Use your limited power of attorney to change the mailing address to your address, and then cancel their homeowner's insurance policy.

Next, you'll need to obtain your own homeowner's insurance. You should always have your own policy on the house to ensure that you are never denied a claim. This can happen if the primary insured person is not the owner.

When you create your new policy, make sure that you get a non-owner-occupied landlord policy. You need to be the first name listed on the insurance, and then the existing mortgage company as the mortgagee. Make the seller the additional insured on the policy.

Why Would A Seller Agree To A Subject To?



A seller would agree to a subject to because they cannot afford their property, are about to be foreclosed on, they need quick cash, or they need a quick sale.

A subject to can allow them to avoid foreclosure, which can really save their credit history and credit score.

In some cases, the buyer pays the seller a lump sum of cash to cover their equity in the home.

Each of these reasons, or a combination of them, are all good reasons a seller to agree to a subject to sale.

Subject To Real Estate Contract

You should contact your real estate attorney for a subject to contract c an agreement for the purchase and sale of a real estate subject to transaction.

With that said, here is an example of a **simple subject to agreement**. Use this just to get an idea of what to expect.

AGREEMENT FOR PURCHASE & SALE OF REAL E

(Subject to Transaction)

AGREEMENT dated this ____ day of ________________ 20___, by and between ________________

hereinafter "**Seller**", whose address is ____

____ hereinafter "**Buyer**" (or its assignee

____

1. **THE PROPERTY**. The Seller agrees to sell and Buyer agrees to buy the following property, located in t

Lot ____, Block ____, CB/NCB __________ commonly known as _____________________________

The sale shall also include all windows shades, blinds, screens, shutters, electric and plumbing fixture

____

2. **PURCHASE PRICE**. Buyer to pay the purchase price as follows (check all that applies):

☐ EARNEST DEPOSIT (Payable to the **Law Firm, Trust Account**) .... $

☐ CASH DOWN PAYMENT due at closing in the amount .... $

☐ TAKE TITLE SUBJECT TO AN EXISTING **FIRST** TRUST DEED NOTE

held by ________________________________ with an approximate unpaid amount of .... $

payable $______________ monthly until paid, including interest not exceeding ____%.

☐ TAKE TITLE SUBJECT TO AN EXISTING **SECOND** TRUST DEED NOTE

held by ______________________ with an approximate unpaid amount of .... $

payable $______________ monthly until paid, including interest not exceeding ____%,

☐ A PROMISSORY NOTE in the principal amount of .... $

For the Terms of the Note, see paragraph 10 below.

TOTAL PURCHASE PRICE IS THE AMOUNT OF .... $

3. **FINANCING.** Buyer will be taking the property subject to d ... nd
and is not expressly assuming responsibility through a form ... ng
20____, the Buyer shall pay all monthly obligations on the ... ess
other expenses related to the property.

If the actual loan balance of said loan is less than as stated ... ice
actual loan balance is more than as stated herein, then Bu ... uce
waive any remaining balance of tax, MIP and insurance es

4. **CLOSING.** Closing will be held on or about ___________ ... d p

____

Responsible for Closing Cost ☐ Seller ☐ Buyer ☐

The following Items will be prorated at closing: ☐ Homeow ... ___

The Law Firm will not provide Title Insurance but will perfor ... at if

Title Insurance companies will not provide Title Insurance v ... off

5. **POSSEION.** ☐ Seller shall surrender possession to t
☐ In the event possession is not deliver ... eds
$ _________________ as security de ... A

6. **ADDITIONAL PROVISIONS.**

- Seller is aware that this loan will not be satisfied in full at clos ... s c
with loan payment booklets and written permission to contact ... pe
Limited Power of Attorney pertaining to the subject property, a ... isc

- Both Seller and Buyer acknowledge that the deed(s) of tru ... y
giving the lender an option to call the loan immediately pa ... old
the said loans.

- ____ ___

7. **DEFAULT BY BUYER**. If Buyer fails to perform the agree ... fo
liquidated damages and not as a penalty, all of the earnest money deposit specified in paragraph 2 ab

8. **DEFAULT BY SELLER.** If Seller fails to perform any of the agreements of this contract, Buyer shall b
damages resulting from the breach of contract, or the Buyer may bring an action for specific performar

9. **OFFER.** This is an offer to purchase the Property on the above terms and conditions. Unless this offe
personally received by Buyer, by ___________, at ___ AM/PM, the offer shall be deemed revoked anc

10. **OTHER TERMS**: ____

Buyer(s): ______________________________________, **Date**: __________

Email: ______________________________ Phone #(s): __________

Seller(s): ______________________________________, **Date**: __________

Email: ______________________________ Phone #(s): __________

[FREE Wholesale Real Estate Contracts [PDF Download]]

Subject To Real Estate Checklist

Here is an example of a **comprehensive subject to real estate checklist**. Again, speak to your mentor, or better yet, a real estate attorney, for complete safety and coverage. Use a home inspector during step four if at all possible.

Final Thoughts

Subject to real estate can seem intimidating at first glance, but it's real not that difficult to break into. Subject to transactions can be mutually beneficial for the seller and the investor. For the seller, they get to avoi financial ruin, foreclosure, or hard hits on their credit. It also grants the the ability to walk away from a property relatively quickly, and sometimes with cash in hand.

For the investor, subject to real estate transactions are attractive becau they don't require credit checks, they need very little or no money dow and the sale closes quickly.

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“Subject To” Transactions in Texas

by David J. Willis J.D., LL.M.

Introduction

In order to understand “subject to” transactions, one must separate the concept of title from the concept of debt. They are divisible. A deed is a signed and acknowledged document that conveys legal title to real property. A note is a signed document promising to repay a debt. The two can be split and frequently are. Transferring title to real property without transferring the obligation to pay the debt associated with it is a “subject to” transaction.

Mechanics of a Sub2

In a sub2, an investor-buyer takes title but makes no promises (either to the lender or to the seller) about assuming the existing debt. In fact, a properly worded sub2 deed expressly states that the buyer is not assuming any such responsibility. Sub2s are often used by investor-buyers in order to buy, fix, and flip for a short-term profit, all before the loan gets so far in arrears that a foreclosure occurs. Presumably, upon resale, the buyer’s new loan eliminates any existing arrearage or default.

Core sub2 documents include a sub2 addendum to the TREC 1 to 4 contract; a sub2 agreement (details below); and sub2 deed (either general or special warranty).

Form of Sub2 Deeds

There is no standard form for a sub2 deed although Texas does have certain rules that apply if any deed is to be valid. This is a sample sub 2 clause in warranty deed:

> This conveyance is made subject to any and all indebtedness of Grantor

> the order of ____, which note is secured by a vendor's lien retained in deed of even date recorded at Clerk's File No. ____in the Official Public Records of Real Property of ____ County, Texas, and is additionally secured by a deed of trust of even date to ____, Trustee, recorded at Clerk's File No. ____ in the Official Public Records of Real Property of ____ County, Texas. Grantee does not assume payment of this or any other indebtedness of Grantor.

Must the buyer sign a sub2 deed? Usually not. Most often, the investor-buyer is accepting title and making no promises or agreements at all, so there is no reason for a signature. However, if there are additional points of agreement, then these may be inserted into the deed and accompanied by the investor-buyer's signature, making the deed serve the dual purpose of a conveyance and a contract. If these additional deal points are lengthy (or perhaps better kept confidential) then it is advisable to create a stand-alone unrecorded sub2 agreement, which is similar in many ways to the side agreement often executed as part of an assumption package-except, of course, for the obvious difference that in the case of a sub2 transaction the existing indebtedness is not being assumed.

The sub2 deed need not show the actual price by the investor-buyer (presumably a buyout of the seller's equity in the property, if any). It is customary for confidentiality reasons to recite that consideration paid is "ten dollars and other valuable consideration" although the actual amount paid can be shown if the parties desire to make this information part of the public record.

Recording

As with any other deed, there is no requirement that a sub2 deed be recorded in the county clerk's real property records in order to be valid-only that execution occur before a notary followed by delivery to the grantee. When this is done, the title transfer is effective between the parties. It is nonetheless in the buyer's interest to record the deed, not just to preserve the record chain of title but to avoid the possibility that the grantor may sell the property twice.
General Warranty Deeds Versus Special Warranty Deeds

The term "warranty deed" is loosely used to refer to a deed that contains both express and implied warranties. There is also a deed without warranties. A

common in commercial transactions, receiving a sub 2 deed with special warranty should not trouble an investor, particularly since the last transaction involving the property likely encumbered it with a purchase-money lien and therefore a title policy was issued at that time.

Sub2 Versus Quitclaims

Some investors consider it adequate to acquire a quitclaim from a seller rather than a sub2 deed with either general or special warranties. This is not the best practice. Why? A quitclaim is the weakest form of transfer and title companies often decline to insure a chain of title containing a quitclaim. A title company may ask that a deed with general or special warranties be obtained to replace the quitclaim. If a grantor is unable or unwilling to provide any warranties then a deed without warranties should be used.

Seven-Day Notice Requirement

As with wraparounds, a Section 5.016 seven-day notice is required. Specifically, the seller must: (1) give seven days' notice to the buyer before closing that an existing loan will remain in place; (2) inform the buyer that buyer has this same seven-day period in which to rescind the earnest money contract without penalty; and (3) also provide a seven-day notice to the lender. Lenders do not usually respond to Section 5.016 notices, nor is lender consent required under this law. As a consequence, the seven-day notice requirement is widely disregarded in sub2 transactions. However, when representing sellers, we always advise full compliance.

Due-on-Sale Issues

There is no such thing as breaching or violating the usual residential due-on-sale clause. Transferring title without prior lender consent does not constitute an offense-moral, civil, or criminal. Due-on-sale merely enables the lender to choose to act-if the borrower transfers title then the lender *may* demand immediate payment in full, but the lender would have to decide that such action is in its best interest, and most lenders will balk at accelerating an otherwise performing loan. Experience shows that the risk of acceleration is small while the loan remains current. This will likely continue to be the case so long as interest

environment.

What is a Sub2 agreement and why is it advisable to have one?

A Sub2 agreement goes beyond the other documents and addresses specifics of the transaction, for example, the details of the existing note or notes; representations and warranties by seller (it is always a good idea to have these if you are the buyer); investor disclosures to the seller that the loan may go unpaid and that there is a due-on-sale clause; matters relating to Dodd-Frank and the SAFE Act; the mechanics of obtaining an eventual release of lien; an assignment of rents, escrow, and security deposit; and other important items. Any of these issues could become problematic later and create a headache for the investor.

If you are the buyer, a sub2 agreement is also a good place to include the online access information for the loan account. Sooner or later, the investor will want to sell the property and it will be necessary to get a loan payoff. If the investor is not the original borrower, then the lender's privacy policies will prevent disclosure of this information.

Hybrid Agreements

As stated above an investor-buyer generally makes no promises about assuming the existing debt. But is this a rigid rule? Not at all, as it turns out. Recall, if you will, that sub2s fall into the category of creative transactions, meaning that all sorts of variations are possible. For example, the investor-buyer may make an agreement with the seller to catch up on part or all of any arrearage that may exist. Other options include a pledge to make payments until the property re-sells, or even to split gross profits upon resale, which incorporates elements of a joint venture. Extensive additional agreements of this nature are best placed in a stand-alone unrecorded sub2 agreement.

Resale of Sub2s

A sub2 may be resold several different ways. First, having put a property under contract, an investor may simply assign the contract to a new buyer. For this reason, the sub2 contract should be expressly made assignable without requirement for the seller's prior consent. Another method is for the investor to close and then flip the property for a sum of cash, transferring the property on a

deed of trust. The latter option obviously involves a long-term commitment by the investor.

Contract Note

Generally speaking, the TREC 1-4 contract should be used for acquiring sub 2s, but it should be accompanied by a "Subject To Addendum." Since neither TREC nor TAR offer such an addendum, a custom addendum drafted by an attorney will be needed.

A sub2 deed is a useful device that should be part of any investor's tool kit, ready to be deployed when the opportunity arises. Sub2 documents, like other creative real estate documents, are not created equal. Consult a real estate attorney. Never use seminar forms, forms from other states, or Internet junk to do a sophisticated transaction like a sub2.

DISCLAIMER

Information in this article is provided for general educational purposes only and is not offered as legal advice upon which anyone may rely. The law changes. Legal counsel relating to your individual needs and circumstances is advisable before taking any action that has legal consequences. Consult your tax advisor as well. This firm does not represent you unless and until it is expressly retained in writing to do so.

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WENDY PATTON

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This book is dedicated to my mother who, in 1985, got me started in real estate investing by giving me my first real estate course. It was her belief that real estate investing was the true way to financial freedom that led me to discover my future direction in life. She believed in me.

I want to thank my husband, Michael, and my children, Brooke, James, Jacob, Rachel, and Sarah, for sacrificing without me during the time I was writing this book and especially during the many times over the years that I was buying and selling real estate. Brooke and James, my twins, were with me through hundreds of homes, when I was a single mother. Their patience was worth its weight in gold!

I want to thank my sister, Jenny, who helped me with most of the editing of my book—for the many long hours she spent. Also, many thanks to Ron Cazier, Scott Teerink, John Hyre, Veronica Johnstone, Kris Mezsets, Amie Leszczynski, and Lyle Reichenbach, for your help in editing and offering your expertise in different sections. I could not have done it without you.

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INTRODUCTION

Lease Options— Anyone Can Do It!

Fourteen-year-old John, with his father, attended a seminar that I spoke at in Houston. During one segment of my presentation I usually teach the students how to call sellers directly out of the newspaper. When I teach this part of the class I often make live calls to sellers so that my students can hear how I speak with the seller and how I gather information to determine whether their home is a potential candidate for a lease option. On this day, however, I didn't make any calls—we simply talked about the best techniques for calling leads.

The next day, while John was in school, he began circling the "For Rent" ads. After school he started making calls—with no caller training—and he got a seller lead for a lease option who said, "Yes, I'd like to consider it." However, being only 14 and having no experience, he couldn't and didn't know how to enter into a legal contract. He asked his father, "What do I do?"

John ended up selling the deal to another investor in their local investment group for $500. He gave me a copy of his $500 check. Not bad for a 14-year-old kid and one to two hours of work. John immediately went on to develop a relationship with this local investor, and on his next deal (while still 14!) made 50 percent—$14,000—of profit for his assistance in the deal. He has since done additional deals for much higher profits.

How and why can a 14-year-old kid do this when most adults would not? Fear! I believe that we all have fear of failure and/or fear of success. At 14, he was not afraid of failure. He just applied what he learned and tried it.

You are never too old or too young to start investing. If you can

do the research and pick up the phone to make the calls, you are on your way. However, many of us stop before we even get started because of our fear. We might have excuses like, "I can't possibly do that. It's a young person's game. It's an older person's game. No one will say 'yes' to me. I have no experience. I don't have a good voice. I don't have money. I don't have good credit." All are negative talk and incorrect statements.

What's going to make you successful in lease optioning or subject-tos is just taking the plunge. You'll make some mistakes along the way, but so what? What's the worst thing that can happen?

John wasn't hampered by fear and so was able to jump in, take the plunge, and make things happen—setting his financial future in motion. His example does not involve a huge amount of money, but it's nothing to sneeze at—it is a fantastic amount for most people and extraordinary for a 14-year-old. The money is important not only because John now can pay for college, but now he also has choices. If he continues on his path in real estate investing, he will have the chance to be independent and work for his own interests, unlike most of his friends. Choices imply options, including personal and financial freedom!

For me, the most exciting facet of real estate investing is Future Financial Freedom—or, as I call it, FX3. Everyone has a different definition of freedom; for some it is financial, for others it means having more control over their time. Let me have one of my boot camp students explain this in their own words to you:

> *Dear Wendy,*
>
> *Our financial future has literally changed within the past couple of months by applying what my husband and I learned from your boot camp and, even more importantly, what we've learned from your ongoing, personalized support—you truly are the best! Keep in mind, my husband thought that I was crazy when I signed us up for your boot camp and flew up from Florida to Michigan to hear you speak. It truly was the best thing we have ever done. Please share my personal testimonial with your classes. I'm a believer, this does work!*
>
> *First off, I have to mention that when we attended your seminar, we had just completed a 1031 exchange, which gave us the great opportunity to start our investing career by buying three houses. Yes, it was so great having three houses sit-*

ting empty and one with a renter that lived off of us for free! This renter was so nice she gave a whole room to her pet rabbits to roam freely in, after we had just rehabbed the house!

*During your boot camp we had a wonderful gathering at your house, in which my name was drawn to purchase a house on a lease option. I jumped for joy like I had just won a prize. The next day, after the [beer] wore off, I figured out what I had just committed to—a house that is 1,000 miles away, where it actually snows, the pipes freeze, and they have things called basements! Yes, being from Florida, this is just what I've always wanted—*not*!*

*We were up for the challenge, and you made it so easy with your support, along with the great contacts and help that we had from others who attended the boot camp. Not only did we get a great purchase price and terms with the owner, but today we have a pending contract for a lease option that will cash-flow us $600 a month, and at the end of the 18- to 24-month term we will profit $107,400! Gosh, I guess that will cover the cost of the class—*truly amazing*!*

When we came home from your class we decided "no more renters." We booted the bad renter out (and no, we didn't keep the rabbits!) and sold all of our houses on lease options. So on our three houses that had been sitting empty, we now cash-flow $700 monthly and we will profit within 18 to 24 months, $227,900!

Now comes the best part. I finally put your class to the test. I went out and found an owner who was willing to do a lease option with me. Every realtor I spoke to (and many investors as well) told me no one in their right mind will do a lease option with you in this market. The Florida market is way too hot. They are right, it is hot. Appreciation in some of our areas is anywhere from 34 to 40 percent.

But I got a gorgeous house that looks brand new, on a lease option. I also got a killer deal on the rent at $950 a month—normal rent would be $1,425! I put $5,000 down, which will come off the purchase price. They were asking $200,000 and it's worth $239,000, so I offered them $210,000. The terms are 14 months, enough time to refinance it if I have to. My new tenants bought it on an 18-month term. We will

cash-flow on a monthly basis $845 ($500 of that will be applied towards the purchase price), and we are selling it for $299,900. That is a profit of $89,900. Amazing—is this for real? I've since quit my job and I'm doing this full time. Thank you again, Wendy, for changing our lives!

Debra and Eric Larson

Why I Chose Real Estate

Deal making may just be in my blood. I've always loved a deal, and the day I realized that real estate investing was that kind of game was the most important day of my life. My first house was a three-bedroom bungalow in a suburb of Detroit. My principal, interest, taxes and insurance (PITI) was $438. I rented two bedrooms to two girls for $250 each. (By the way, both women are very good friends of mine to this day.) I had cash flow and I was living free! My $62 cash flow per month paid my credit card payment. I was 21 years old and I thought this was pretty cool! So I decided to do it again. I did it three more times that first year. I had no money or assets, but I did have good credit.

At the start of my real estate investing career, I was $20,000 in debt with student loans. In my mind, the worst thing that could have happened was that I would go bankrupt. However, I had good credit and was able to make my down payments on homes with credit cards. It wasn't long before I had a credit line of over $250,000—and too many credit cards. Using credit cards should be the last resort for most investors, as I lost a lot of profit by having huge revolving credit card debt—even though I faithfully made payments on all of them and somehow juggled them so that no payment ever slipped through the cracks. It was, however, an administrative nightmare. Still, I couldn't focus on that. I had to focus on what was the best that could happen: I could end up with *freedom* and *choices*!

When I started investing, I didn't know about lease options or subject-to deals, and I thought what I did was a zero-down deal and something very creative. I didn't know of any gurus at the time who focused on buying on lease options, so I developed my own tools and systems to buy homes with little or no money down, using the same techniques I was using to sell. I have since purchased almost every course available in the market on lease options, and learned extra tid-

bits from them all to add to how I do my business. I am the only national educator in the country who teaches people how to work with Realtors to find these types of zero-down deals. Over the years I have fine-tuned the techniques that really work. I have completed hundreds of lease option contracts.

I have bought and sold over 600 properties since becoming an investor in 1985. I have had as many as 175 properties in inventory at one time. My current and longer-term goal is to downsize to have 30 in inventory, not including partnerships with students around the country. I have invested in several states and continue to look for new opportunities throughout the country and possibly internationally.

Whether we leave a job to pursue our own dreams of becoming a baker, a pilot, an artist, or a Realtor, we all have the same concerns and fears about starting out in a new business venture where we have to rely on our own efforts to make a payday. The first couple of years can be rough. It takes a while to pay your dues in any new skill—and dealing in real estate is a skill. But real estate not only has immediate profits through lease options, it can also automatically provide investment income by the very nature of appreciation. This appreciation factor isn't built into most other self-employment situations. Real estate builds a tangible future that can set you up for life if you have the passion and the drive to dig in and overcome your fears of trying something new.

Wendy's Advice on When to Leave Your J.O.B. (Just Over Broke)

If you want to pursue real estate investing, and in particular lease options or subject-tos, I don't advise quitting your job and starting with nothing. Instead, I offer two pieces of advice:

1. It is best to start this business while you are still employed at your current job so that you won't have to worry about receiving a paycheck while you are learning the business.
2. Begin to build a second income that can eventually replace your primary income when you are ready to leave your job.

Too many people leave their jobs too early, only to find out they have to go back or can't survive without the income. Don't make that mistake.

INTRODUCTION

I am so glad I pursued my dreams in real estate many years ago. When I left corporate America in the mid-1990s to pursue real estate full time, it was the best career move I had ever made. It has given me financial freedom. Do you want to be free? Real estate can give you Future Financial Freedom (FX3) too!

This book shares my secrets and strategies with you. I suggest you try them all and decide what works best for your personal style and your specific area of the country. As you find your niche, you will perfect it. Real estate investing changed my life and it can change yours, too. May lease options, subject-tos, and zero-down strategies change the way you think and help you live out your dreams so that you may have all the choices and freedom you desire!

PART 1

AN INTRODUCTION TO LEASE OPTIONS AND SUBJECT-TO DEALS

CHAPTER 1

How Lease Options and Subject-Tos Work and How They Can Set You Up for Future Financial Freedom (FX3)

What Are Lease Options and Subject-Tos?

Lease options and subject-tos are ways to purchase real estate, usually with very little or no money down, sometimes even with money back in the investor's pocket. Sound too good to be true? Well, it isn't. Can an investor end up with money in his pocket and not have to put 10 to 20 percent down to purchase real estate? Yes. These techniques are used commonly today by successful investors. This book will show you how to find motivated sellers and homes that you can purchase with little or no money down—truly the fastest way to Future Financial Freedom (FX3).

A lease option is a strategy that gives an investor the right to lease a home and also the right to purchase the home during or before the end of the lease period. An *option* is a contract that gives its purchaser the right to exercise a privilege. In the case of real estate investing, it gives the investor the right to purchase property during a contracted period of time. It is a technique that involves gaining control of a property without the added burdens of ownership. All money made in real estate is made by controlling property. Owning property is the most obvious way to control it, but control is possible without

ownership—and control is what brings in the money. It was a dying John D. Rockefeller who shared his secret to achieving great wealth: "Control everything, own nothing." All of the most successful real estate developers today utilize options.

A subject-to is a technique by which the investor gains the title to a property but doesn't have to get a mortgage on the property he is about to control. The seller keeps the mortgage in his own name but deeds the property to the investor. It is deeded to a new owner "subject to" the existing mortgage, which stays in place with this technique. The mortgage company isn't usually made aware of the change or asked about the change. The new owner just starts making the payments on the old owner's loan.

It is important to be aware that there are some risks involved with either technique, and I cover these risks later in the book to help you minimize your exposure. The rewards that can come with either of these techniques far outweigh the risks, as long as you keep aware of all the factors involved. Real estate investing is perhaps the quickest and best way to build lasting wealth. Many of the world's wealthiest people acquire much of their wealth through investing in real estate.

While lease options and subject-tos can build you tremendous wealth, they usually shouldn't be considered a short-term investment strategy. I define a short-term strategy as one in which the time between the start of the transaction and its completion (cashing out) is less than one year. A classic example of this would be a rehabbing project (fixing up a home and reselling it). The other end of the spectrum would be a long-term strategy, such as buying a rental property and renting it over many years. I consider lease options and subject-tos to be in the center of that spectrum, usually requiring one to three years for the best payoff. However, you can always immediately sell the deal to another individual or investor for a profit; this is called *wholesaling*. It can be done if you buy the property at a low enough price that you can turn a profit by selling the deal to another investor where there is still enough room for them to profit as well.

Visualize This Scenario

In every seminar I teach, I ask the students, "Who of you would be willing to purchase a home valued at $200,000 for $100,000?" Of

course all hands shoot up. Then I continue by asking if they would still be willing to purchase the same home if the price was $150,000. Most of the hands stay up. I proceed upward with the price, increasing the increments by $10,000 each time. I always sit and watch with amazement as the hands slowly but surely drop. At the price of $180,000 almost all hands are down. At $190,000, usually, all hands in the room are down. The point I am trying to make to each of them is that most investors are not willing to pay this close to retail price for a home.

I then re-pose the question to each of them: "How many of you would be willing to pay $200,000 for a $200,000 house with no money down, in a market that is appreciating at 10 percent per year, with a 10-year period to pay the $200,0000 to the seller at $1,000 per month?" Now all their hands go back up. I ask, "Why, now, are you willing to pay more for that house that you refused to pay $180,000 to $190,000 for a few minutes ago?" They respond in unison, saying, "Because you added some attractive terms!" My response is always the same: "You didn't ask the terms before!"

Terms are part of a whole deal, such as price, length of time to pay, monthly payment, and other items negotiated with the seller, which are discussed in more detail in Chapters 5 and 9. Many times even experienced real estate investors don't ask, "When does the seller need his cash?" They say "no" to a price without asking the seller when he needs the money. The previous example illustrates how most investors think: They don't ask all the right questions about the property before they make a decision. They look at the surface but they don't dig deeper for other possibilities.

Lease options provide a creative solution to allow you to negotiate terms that can increase your profits and provide a great investment opportunity. You are able to pay a higher price on a home if you can get reasonable terms, and having this tool at your disposal thus allows you to open up many new possibilities and make money on deals that were before completely ruled out. I am not suggesting that you pay $200,000 for a home worth $200,000, but you can if certain market conditions and terms previously described exist. If your market is flat (not appreciating) and you have only two years to exercise your option to buy the home, then maybe the price you offer should be much less. It's all about terms!

When doing any lease option or subject-to deal, one of my mottos

is that everyone must win or we don't do the deal. There are three people involved: the seller, the investor, and the tenant-buyer. It must be a win-win-win; otherwise, walk away.

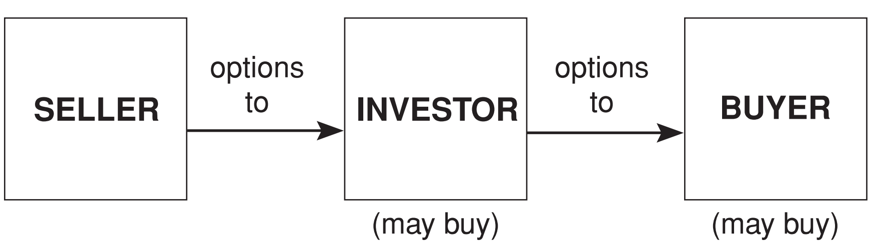
Wendy's Advice about Buying on Lease Option or Subject-To

If it isn't a win-win-win for the seller, the investor, and the tenant-buyer, then walk away from the deal. There are plenty of deals out there where everyone can win.

Standard Lease Option Deals

My typical strategy is to lease option from a seller and then to lease option that home to a buyer.

How Lease Options Work



The above illustration depicts a sandwich lease option. In a sandwich the meat is in the middle—that's the best part. You (the investor) are in the middle of this transaction; your reward is the meat—the difference between what you can pay for the home and what you can then sell it for. There are other ways to make this deal even better and more profitable, which are discussed in Chapters 5 and 9.

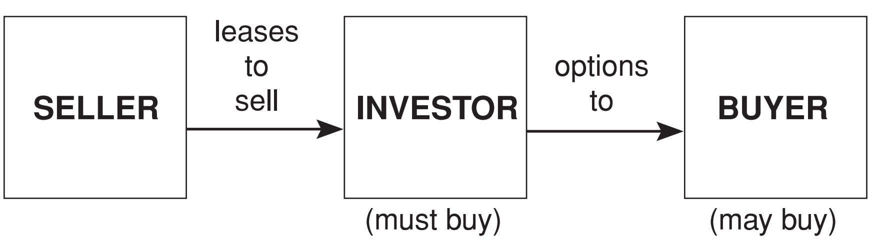
A variation of the sandwich lease is the lease purchase. While a lease option gives the investor the right to purchase real estate, the lease purchase *guarantees* that he or she will purchase the property during a given time period. Under some circumstances I will commit

Wendy's Ethics Rule

Don't do lease options with potential buyers who have no way of ever being able to get a mortgage. That's just being greedy and taking advantage of someone. It is not fair to the buyer. If the buyer messes up, shame on them! If you mess them up, shame on you!

to buying certain homes using this technique—for instance, with specific Realtors, with deals that have a very good potential for profitability, when I have a solid buyer lined up, with high appreciating markets, and with very long-term deals. I do not use lease purchases much when I'm selling, because they are hard to enforce. If your buyer defaults, you have to sue him specifically for nonperformance in order to get him to buy your home. It is costly and very time consuming to do this. If your buyer cannot get a mortgage it is also a waste of time. I would recommend moving on and, in most cases, finding a new buyer. I therefore use lease purchases mostly to buy and rarely to sell.

How Lease Purchases Work



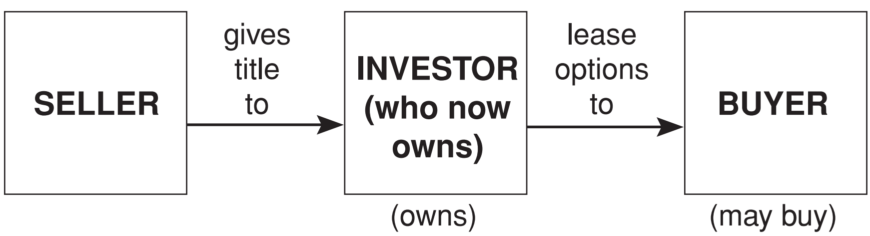
Wendy's Ethics Rule

Don't do lease purchases if you don't intend to follow through on the transaction. Do what you say you will do, when you say you will do it. Help keep real estate investing an honest profession.

Standard Subject-To Deals

If I can't get a lease option or lease purchase from the seller, or if it doesn't make sense from a business perspective, then a subject-to is another way to acquire the property. However, it is important to note that a subject-to is a buying strategy only. Though I may acquire the property subject-to, I would still sell it on an option.

How Subject-Tos Work



A Lease Option Deal

Here's a great real-life example from my files of a lease option deal from start to finish—a true win-win-win:

The Seller: Janet

Janet, a seller, answered an ad I had placed in a newspaper.

> Company looking for 3-4 homes in this area, on long-term lease. Call 123-222-2222.

Janet's home had been listed on the market for $189,000 with a Realtor and the contract had recently expired. She saw my ad and

decided to call me. She was exactly the kind of person I was looking for: willing to sell and also willing to do a long-term lease. I still had to determine some other factors to make sure it would be a win-win-win.

Janet's most important area of concern was her price. It was set at $185,000, and she was not going to budge on that portion of the deal. As soon as I knew that Janet was set on this one area of negotiation, I could work with the other areas of the terms for myself (see Chapter 6 on negotiation). I would need to look at the rest of the terms to see if I could still make this a win-win for my side of the deal. These days I do not say no as quickly as I would have years ago; I look at the entire deal now, instead of getting caught up with a traditional style of price-alone deal structuring. Janet had fixed her price, and so I had to look at monthly payments and the time line available. By having all the facts, I was able to analyze the entire deal and thus make sure I would still obtain *my* bottom line of profitability.

At the time of this particular deal, we were in a strong appreciating market—approximately 6 to 7 percent per year. I figured that a 6 percent growth rate on $185,000 would mean approximately $10,000 per year just in appreciation. I had really hoped to get the property for $175,000. Even with the $10,000 in appreciation after the first year, I would still only be where I had originally wanted to be in the first place. I did end up buying the house and putting $4,000 of improvements into the property (basic carpet and paint). I now had $189,000 into the property, including the improvements. Anything above the $189,000 that I could sell it for would be pure profit.

Janet was not in trouble financially but she was motivated to sell. She had a severe shoulder injury that was preventing her from doing the maintenance around the property. She made great money and could have hired someone to do the maintenance, but she decided that with 20-plus surgeries under her belt and more to go, she just wanted some time off from dealing with her large home and yard. She didn't need to pull her money out of the property, but she did ask for $1,000 up front so that she could go rent a lakefront home in the area. The $1,000 I gave her for the option fee, plus the $4,000 for improvements, was a total of $5,000 out of my pocket for this home, which is less than 3 percent down—a small amount for this home.

The Buyer: Roberta

I knew that Janet and I were going to come to terms and do the necessary paperwork on a Sunday, so I ran an ad on that same Sunday, and I got a call from Roberta. I told Roberta that she could drive by the home but that she could not go in or on the property yet, because someone still lived there. Roberta didn't even know I didn't have the deal tied up—I just wanted her to drive by and see if she liked it.

Roberta had credit problems and seven dogs. Most landlords will not rent to someone with seven dogs, and most mortgage lenders won't do a mortgage for someone who has poor credit. With an inability to get a mortgage, she was also unable to work conventionally with a Realtor, so what was she going to do? No one would rent to her, and no one would give her a mortgage. Many people are in this kind of situation, seeking a solution. These are the people I am trying to help. They want the American dream, yet they are unable to obtain it in the usual way. Lease options give people a second chance to improve their credit while working toward the purchase of the home they desire to own.

If you're a landlord, all you get up front on any of your rentals is the security deposit, and that is just not enough cash to take on the risk of someone with poor credit and seven dogs. You can change this scenario by converting these people from tenants to tenant-buyers; then the risk that once was on you is shifted to the tenant-buyer, which is where you want it. With Roberta putting a lot of money down (option fees are not refundable), she was taking on the risk.

Let's look at how the deal transpired:

My out-of-pocket costs:

Option fee to seller	–$ 1,000
Improvements	–$ 4,000
Option fee from Roberta	+$10,000
Left over in my pocket	+$ 5,000

Without even owning this home I now had $5,000 in my pocket. Roberta was the one risking $10,000 with her option fee, as

it was nonrefundable. If she didn't buy, she'd walk away from a lot of money.

Janet asked me for $1,100 per month for rent, and I in turn asked Roberta for $1,450 per month for rent. That way I was able to have cash flow of $350 per month, which would add to my profitability in the deal. In this case Janet had a lot of equity in the home, and I was able to leverage that equity to get her to accept the lower monthly payment of $1,100.

The option sale price I set for Roberta was $225,000. How did I get that figure? I put a 10 percent option premium on top of the retail price (see Chapter 5), plus I added an additional 6 to 7 percent appreciation rate at 18 months, which was approximately another $20,000. I then rounded it up a little to get to $225,000.

What was the property actually worth? Value is always determined by what a buyer is willing to pay. Roberta later had the house appraised at $267,000. Did I lose $42,000? I don't think so. After all, I did make about that much. Was Roberta happy with the appraisal? Of course! Janet was happy because she got the price she wanted, and Roberta was happy because the appraisal gave her an additional $42,000 in equity that she can utilize if she wants. Janet won, Roberta won, and I won. This demonstrates what a classic win-win-win deal is all about.

Here's my profit at closing—not bad for not actually owning the home (except for two hours), but just controlling it!

Front-end cash	$ 5,000
Back-end sale	$31,000
Tax prorations	$ 2,800
$350 cash flow × 14 months	$ 4,900
Total profit	$43,700*

*It is not exactly $43,700. There are transfer fees in most states, title insurance fees, and I give my buyers option credits each month when they pay their rent on time. The extra $2,800 on tax prorations was given as extra profit to me also—a bonus when both the buyer and the seller paid for property taxes at closing. Only one person needed to pay for property taxes; therefore, the extra $2,800 is given to the investor in the middle of the sandwich lease option deal.

A Subject-To Deal

Here's a great real-life example of a subject-to deal from start to finish, another win-win-win.

The Sellers: John and Sally

John and Sally, sellers, answered an ad in a West Palm Beach newspaper, from one of my ads that my student—I'll call him Bob—used. I helped Bob structure the lease option portion of this deal to make the numbers work. Here is the ad:

> Tired of monthly payments? We can help. We will make your payments. Call today. Call 123-222-2222.

The sellers were three months behind on payments of $2,100 each. They saw the ad and called. Their house was worth between $385,000 and $400,000. They owed $268,000 on the first mortgage, which didn't include the three missed payments (one of which was only two days late); a second mortgage of $15,000; and a small assessment fee of $2,000, which could be paid at closing in a year or two. Total owed on the home $285,000 (not including those back payments). These sellers had attempted to sell this home twice in the West Palm Beach market, but both buyers had backed out prior to closing. They had since moved out and rented a place in a better school district for $2,200 per month. They didn't have any savings and could not afford both payments. The home was in pristine condition and needed nothing, unlike many homes in this situation.

These people wanted to work out a deal so that they would be able to get some of their equity out and not lose it all. They wanted to get their equity when their current one-year lease expired so that they could buy a home in the new school district, but they didn't need the equity out immediately. These people were also in a bad situation: They couldn't refinance the property, even with their equity, because with the missed payments they no longer qualified financially for a mortgage; they had no one they could borrow from. These people were in a difficult situation, which required a solution.

An ad like ours will attract some lease option sellers but also

subject-to sellers; this particular couple was a subject-to seller. They were behind on payments. They were willing to take much less than the current value of the house, and to take it at a later date. They did not need their equity immediately. What they needed was a solution.

Bob offered to give the sellers $40,000 on their home, but not until he sold the property. There would be no interest on the $40,000. This would bring his total investment in the home to $331,000 (acquisition cost of $291,000 + $40,000). He also offered to make the three late payments that would bring their mortgage current—a total of approximately $6,300. From this point forward, he agreed to continue making their mortgage payments. This would prevent them from going into foreclosure. Their credit score would improve as he continued to make their house payments on time. While the late payments of 60 days on the mortgage were a negative indicator, they could be explained by the couple's move and the two previous deals falling through.

Bob could have either made their payments until we refinanced the home into a lower rate or until he lease optioned it out. He had several choices. The biggest issue on this particular deal was the payment amount; it was a bit high for a rental, which many times can be a problem for subject-to deals. If the mortgage payment you are taking over is too high, you need to refinance the property at a lower rate or work out a better deal with the seller. On this particular home he lease optioned it out.

The Buyer: Frank

Bob found a tenant-buyer, Frank, with an ad for a lease option for the market rental rate of $1,600. The problem was that this rate left Bob $500 negative per month! He now had two choices: (1) See if Frank could pay more, or (2) do the refinance.

Bob and I came up with an offer that Frank couldn't refuse: He offered Frank 50 percent on his investment (better than most investments). Frank was a high-tech type of guy who had credit issues from the year before when he had suddenly lost his job. Since then he had become reemployed and was making very good money. He could easily afford the payment and more. Bob offered to give him an extra $500 credit plus an additional $250 credit if he paid $2,100 instead of $1,600 per month. He jumped at it. The most it would cost Bob is $750 per month for the 12 months Frank was in the home, if he bought it. If he didn't buy, it would make Bob the $500 per month

cash flow, which he could keep, and because he would not have to refinance he avoided the costs related to that. Frank also had $8,000 to put down as his option fee. He would have liked to put more down, but that was all he had saved since he had been so recently out of work.

Let's examine expenses so far:

Investor's out-of-pocket costs:

Three months of payments	–$6,300
Improvements	–$0
Option fee from Frank	+$8,000
Left over in our pocket	+$1,700

Bob didn't even own this home but already he had $1,700 in his pocket. Frank was the one risking the $8,000 option fee because it's nonrefundable. If he didn't buy, he'd walk away from a lot of money.

The option sale price we set for Frank was $425,900. How did we get that figure? Bob put a 5 percent option premium on top of the retail price (he started at $385,000 on this one, but it could have been higher—see Chapter 5 about determining the profitability of deals), plus an additional 5 percent appreciation rate at 12 months, which was approximately another $20,000. This was a very conservative appreciation rate for that market. I think he should have gone higher on the appreciation calculation. The appreciation rate at the time he sold the home was 10 to 15 percent in his area. This deal was very good on that account; I just did not like the monthly payment left from the owners' mortgage.

Here is the profit at closing—not bad for not getting a mortgage on a deal and putting only $2,500 down! I wish all of my deals could be so profitable!

Front-end cash	$1,700	
Back-end sale ($425,900 – $8,000)	417,900	(less $8,000 Frank put down)
Option fee credits given away ($750/month × 12 months)	–9,000	
Cash flow (break-even)	0	

What Bob owed owner/lender ($331,000–$6,400 paid)	324,600
Total profit	$86,000*

The sellers in this example were thrilled that their credit rating was improved and restored, so they could once again buy a home. The purchaser was also thrilled that he could buy a home in a beautiful town and restore his credit. This is another classic example of a win-win-win.

Not all subject-to deals or lease option deals are that profitable. It depends on where you start with the seller, how motivated they are, how strong the market is (appreciation), and the price range of the home. If you're looking at a $50,000 home versus a $500,000 one, 10 percent makes a huge difference. The starting number will have a big impact on the total profitability. This is discussed further in Chapter 5.

Financial Freedom—You Can Get There!

These examples show you how lease options and subject-tos can be very profitable. The previous examples are fairly simple versions of the lease option and subject-to techniques, as there are many other creative ideas you can do to make them as profitable and complex as you choose (covered in Chapter 9). Remember, you may need several deals just to lay the groundwork for your Future Financial Freedom (FX3). It doesn't happen with one deal, and it doesn't happen overnight. However, with persistence it will happen!

There are at least three paydays using these techniques:

1. The upfront option fee from your buyer—or anything that your seller pays you to take over a mortgage on a subject-to deal.

*It is not exactly $86,000. There are transfer fees in most states as well as title insurance fees; principal paid on the mortgage during this time period is also kept on a subject-to.

2. The monthly cash flow—the difference between what you pay a seller and what your buyer pays you.
3. The back end—the difference between what you are paying for the home and what you sell it for.

While the option fee is nonrefundable, don't get excited on your first deal by immediately going out and buying that big-screen TV you've always wanted. What if something happens six months down the road? In owning or controlling real estate, things come up that are completely unexpected: broken furnaces, leaking roofs, unpaid rents, and so on. Plan ahead for those things and you will be safe. If you have held the option funds in reserve, you will be able to cover your expenses. That's just good business sense. Yes, the money is yours to keep, but be wise with it because you may need it. You might want to put it aside entirely for an investor's rainy day so that you will be prepared. After the deal closes, you can take another look at the money, because you will have not only that initial option fee but also the back end from the closing.

As you are getting started in this business or any other business, it is important to be conservative with your cash flow and money. I recommend you keep your spending very tight and conservative. Also, you want to be prepared to buy the next property should a good deal be offered to you. Unfortunately, most people in our country do not have good spending habits, and these bad habits allow people to get into financial trouble. It is very important to be on a strict budget for this type of business. If this will be hard for you, then you may want to find some outside help to get you on a system, which can assist you in financial counseling. I cannot stress this enough; it can be a make or break for people!

Let's say you made $30,000 overall on the deal. One positive way to use that money is to reinvest. Reinvestment will continue to bring income, but you will also want to pyramid your income. For example, if your first property made $30,000 overall and you received $5,000 in an up-front option fee, now you're going to want to look for two to three new properties, probably with the same profit ranges. You'll need money up front to pay your option fee to the seller, even though you will reimburse yourself later with the option fees from the buyer. The properties may also need repairs, and that money will have to

come out of your pocket up front, so you need to have the funds available from the previous sale. During this time you will probably still keep your day job, just to keep enough cash flowing in while you are building your new business.

Reinvesting doesn't just mean pouring money into new properties. It can also mean purchasing new office equipment, software, or anything else you need to continue to build your business. Maybe it's time you trashed that clunker computer and got one that was made in the twenty-first century. Install a second phone line or buy bookkeeping software. I cannot stress it enough: Be prepared for your future.

At this time, my average profit is $40,000 per lease option deal. Lease options typically turn over every 12 to 24 months. Depending on what part of the country you reside in, the profit range should vary from $20,000 to $150,000 (Midwest to northern California). Subject-to profit ranges should be equal to or greater than lease options, because you are buying from distressed sellers and might be able to negotiate more on the price; however, you might also have to use more cash to purchase them. You decide how much you need to make, and then you will know how many homes you need to lease option or buy subject-to. Not only can lease options and subject-tos set you up to live well today, but they can set you up for Future Financial Freedom (FX3) and retirement. Just sit back and imagine . . . how would it feel to be completely debt free? Real estate is the vehicle that can allow you to achieve just that.

CHAPTER 2

Success Stories of Buying on Subject-Tos and Lease Options

The best part of doing subject-to and lease option deals is being able to witness the end results. Unless a deal is a win for each party, walk away from it. The seller must win, the investor in the middle must win, and the tenant-buyer must win. When all three of these people win in a transaction, there is nothing better! This chapter contains stories shared by different investors in different parts of the country. The sellers' and buyers' names have been changed, but the numbers and details reflect the specific transactions. These deals will inspire you and show you how you, too, can be successful and create unique solutions for motivated sellers.

Lease Option Case: Steve's First Deal

This study is important because it describes a first deal. I like it because it highlights how each party to the transaction was able to come away as a winner. Here is how Steve described it:

> *Sara had a house in Fowlerville that she kept after her divorce. She couldn't stand to continue living with the memories from the marriage, so she bought another house in*

Fenton, closer to where she works. She advertised the house as both "For Sale by Owner" and "For Rent." She wasn't excited about being a landlord, but she was looking for debt relief in a quick way.

I called on her "For Rent" ad and we met to discuss some options. I agreed to start paying her $1,100 per month immediately (because that is what she needed to cover her expenses), and for $1,000 I bought an option to buy her home at $155,000 sometime within the next three years.

I put about $300 into the house to fix a few things, plus I paid for a home inspection and a title search, so my costs were minimal, around $500.

Two days after I signed with the owner, a tenant-buyer from my accumulated list paid me an option fee of $5,000 and the first month's rent of $1,195 to move in. The lease term was 18 months and the buyout was $169,900. There was no lease money being applied to the purchase price. The lease started in March and they have been paying early every single month. They have never called me with an issue of any kind, so it is going about as smoothly as I could ever hope.

I liked this deal because the owner was very happy that I took the house off of her hands, and she always receives rent from me by the first of the month. The tenant-buyers were very happy because they were able to get themselves and their three children from an apartment into a nice house on an acre of land. This is a "win" for me also because I made money on the front end, $95 monthly cash flow, and the whole deal will make over $16,000. Not bad for my first deal.

—Steve Giroux, Michigan

Lease Option Case: Rance and Ryan's Buyers Provide Cookies

This is a fun story from two of my students who got off to a great start on their first lease option deal. They did such a great job that their buyer has bought additional properties from them and even sends them Christmas cards and cookies! Here's how they told it:

We attended your seminar on lease options in Seattle. Within one week of your seminar, we located a vacant rental in a nice Seattle neighborhood and were able to negotiate a lease option with the seller. We put the home under contract to purchase it for her full asking price of $175,000. We were willing to pay $190,000 but did not need to go that high. We were to pay $1,000 down, payable in 90 days or when we found a tenant. We paid no interest, with 100 percent of our $900 monthly payment going towards principal reduction. We had three years to cash her out.

We sold it on a one-year lease option in about 10 days for $200,000. That was a great deal for our buyers. We're confident we could have sold it for $220,000. We took $10,000 down, leaving us $9,000 after paying the $1,000 to our seller. We received $1,295 a month from our tenants with no rent credit and none going toward reducing their principal. We got a $395 per month positive cash flow for one year that added up to $4,740 plus $25,800 after one year when our tenants exercised their option.

After making $30,540 on our first deal using the strategies you taught us at a half-day seminar, we signed up for your next three-day Lease Option Boot Camp and ended up acquiring 19 more properties the following year; two of them were clients referred to us by our first buyers, who have now acquired two more properties from us. Our buyers still send Christmas cards and cookies and continue to thank us for helping them buy a home when no one would loan them money because of a previous bankruptcy.

Thank you for sharing your lease option strategy and inspiring us to jump out of our comfort zones.

—Rance and Ryan Barclay, Washington

Lease Option Case: Shaun Reaps What He Sows

This is an interesting case that shows the value of establishing relationships with Realtors. Shaun got a call from a Realtor that he had spoken

to over a year earlier; she had kept his card. This particular house had been listed for six months without luck. The seller had moved out of state, leaving the home empty for the past four months. Shaun was able to lock in very flexible terms to create a terrific deal for himself while relieving the seller of his burden and allowing a new buyer a fresh start.

This deal came as a referral from one of the Realtors that I talked to over a year ago. She called me out of the blue from my card she had kept. Here are the numbers:

$700 per month	*Lease option price from seller*
$850 per month	*Lease option price to buyer*
$150 per month	*Profit on cash flow*
$132,000	*Purchase price from seller (for as long as I want—I can buy this house for this price in a month or in 10 years; he didn't care either way)*
$159,000	*Sales price to buyer within 24 months*

I also got a $7,000 option fee from the lady up front.

Not a bad deal, huh? This is almost a $30,000 deal. The great thing about it is that the buyer has pretty decent credit. She could qualify for a loan on this property right now if she wanted to, but is going to wait about a year to get her score up from a previous divorce (her husband had a few late pays). Not only that, but if she doesn't pay me, it's no big deal. I'll just do this whole thing all over again. I also negotiated with the seller that if for any reason I have a tenant who stops paying me, I don't have to make payments until I get another tenant in the property.

This property was listed on the MLS for six months at $155,000 with no luck. The fact that I offered it on a lease option and had a pretty good marketing plan allowed me to get more than a Realtor could get. The house was in great overall condition—it was just a little bit outdated compared to the rest of the neighborhood. The seller had moved to Texas and it was sitting empty for four of those six months, so he was obviously motivated.

Thanks for showing me the ropes on this one, Wendy! My fiancée moved here from Kansas City about four months ago and immediately started the real estate biz with me. I love it!

—Shaun McClosky, Missouri

Lease Purchase Case: Cleberto Has Multiple Exits

This situation shows that even though Cleberto had an exit in mind when he bought the property, market conditions in combination with the nature of buying on a lease opened up additional opportunities. Cleberto found a property listed with a Realtor. It was in a nice area of Orlando, where he holds most of his properties. He has a good understanding of the market and home prices there. Recognizing the below-market price per square foot, he followed up on the property.

It was a seven-year-old home in a nice gated community in Orlando. It had been listed for two months at $339,000. The following drew our attention:

- *The price per square foot was below the subdivision average.*
- *MLS remarks: Motivated seller, $2,000 bonus.*

Driving by the property, we noticed a recent "For Rent" sign. Now it was becoming really attractive. We figured the owners must need some cash flow soon, and we wrote our offer accordingly.

After some negotiation, the following was accepted:

- *A lease purchase at the $339,000* full *price (to get their attention) for a two-year term.*
- *We would advance three months rent and $2,000 of the listing agent's commission (towards purchase price). These two items would be payable to the owners within 60 days.*
- *$500 in escrow (toward first month's rent).*

- *Rent of $1,895.*
- *We also requested that the $2,000 bonus offered by the owners be paid to the listing agent (that way the agent would have $4,000 of his commission paid soon).*

We had previously experienced problems taking too long to rent or rent-to-own a property, and had decided for this one to have a fallback plan, in case it was taking too long to market.

Our lease option plan to find a buyer was as follows:

- *Rent $1,995 (to move it fast).*
- *Option fee of $10,000.*
- *Price: $379,000 for a 12-month term or $389,000 for an 18-month term. This should give us a profit of more than $35,000 and $45,000 for the 12- and 18-month periods, respectively.*

To our surprise, along came someone offering us $2,295 for a straight 12-month lease. We accepted it because it increased our monthly cash flow to $400/month, and there was an uptrend in our real estate market. We believed that trend would continue over the next couple of years.

As the end of the current 12-month lease with our tenant approaches, the market has experienced the tremendous appreciation that we expected. At this point, these are some of the alternatives we are considering:

- *Sell this property for at least $390,000 and realize more than $40,000 in profit. Comparables are already there to support the price.*
- *Put it back on the market as a lease option with a price increase of some $40,000, providing a future $70,000 or more in profit.*
- *Buy it early from the owners and hold it longer. Since we would be closing earlier, we may request some breaks from them.*

—Cleberto Copetti, Florida

Subject-To Case: Scott Finds a Deal

Scott describes his transaction in terms of the numbers as well as the paperwork involved in this subject-to deal. He goes on to tell of his lease option exit with another investor. Other investors can be your best sources of deals as well as your best customers. Keep your eyes open and stay creative.

> *The owners bought the home new for $155,000. They had paid the mortgage down to $150,000 when we bought it subject-to. The deal was as follows.*
>
> *The purchase price was $150,000 (we took over the loan subject to a 6 percent interest rate). In addition, we gave them a check for $1,500 upon signing the warranty deed and we'll give them another $3,500 when the house sells with a new mortgage. We had them sign a warranty deed (notarized), seller's acknowledgment agreement (two-page disclaimer that they initial), a due on sale acknowledgment (telling them that the property is taken subject to the existing financing and could be called), a notarized general power of attorney, and a purchase and sale agreement. We recorded the warranty deed and now own the house.*

Scott offered the sellers $3,500 at the point in the future when the house closes. His objective was to provide them with additional incentive to follow through with the closing. He goes on to describe the sell side to another investor. Because of the fast appreciation in this particular market, he negotiated a slice of that beyond the profit that he locked in at the time.

> *Within one month of doing the deal, a slightly smaller house sold in the same community for $205,000.*
>
> *We sold this property on a lease option, using your techniques, to another investor for two years with $3,000 down, a positive monthly cash flow of $150, and a sales price of $188,000. We will also receive 25 percent of anything above the $188,000 that the investor sells it for.*
>
> *—Scott Teerink, Arizona*

Subject-To Case: Marti Helps a First-Time Buyer

This next case shows how an investor was able to use the subject-to approach to create happy and satisfied buyers and sellers while creating a nice profit for herself.

> *In June a couple responded to my ad and asked what they needed to do for me to make their house go away. They had bought it on land contract, and when they moved they wanted to give someone else the same opportunity that they had. So they tried renting it with the option, but even the fourth renter with $11,000 down (from an insurance settlement) didn't work out. They'd had enough. It was a mess. They took out 2,000 pounds of trash and cleaned it from top to bottom, so we wouldn't have a reason not to take it.*
>
> *We took the deed (their idea!) on November 19, leased it to a tenant-buyer on December 15, and evicted him on February 29. My renters from South Bend moved in the same day with the idea of buying it on lease option. However, on March 30 we had cleaned up their credit enough that we closed their loan.*
>
> *The balance on the mortgage was $46,000. We sold it for $75,000, having put $4,836.64 into the rehab, holding, and my closing costs. It appraised for $78,000. The buyers needed help with their down payment and closing costs, so they paid $78,000 which covered both. My net profit was $28,037.77.*
>
> *The sellers' nightmare ended and the buyers' dream began, and we made money in the process! The buyers had been married 16 years and had always rented because no one had showed them how they could own a home. What was really great was that no one in the husband's family had* ever *owned a home. Don't you just love this business? Too cool!*
>
> *—Marti Bentley, Indiana*

Subject-To Case: John Partners

This next case shows how an investor got over the hurdle of completing his first deal by partnering with someone else. You don't have to

do everything yourself. John found a good deal and shared it with some people at his local investors club. John worked with one of the investors who expressed interest in the deal. Together they negotiated the transaction, remodeled the home, and then sold it for a generous profit that they were happy to divide.

> *I was excited that Monday when we came back from Wendy Patton's March seminar with other speakers in Houston.*
>
> *I caught up on all my work and then went to the newspaper recycling pile for the classifieds. We marked everything that was interesting and after class started calling. One house was listed way below the property tax appraisal and in a decent part of town.*
>
> *I got a ride to look at it, and then went to a small group meeting that the local investors club had that same night. When we talked about it, three people immediately asked to buy it. The first to speak, Kerry, signed an offer and negotiated a good price.*
>
> *Six weeks later we sold it to the same contractor we used for remodeling.*
>
> *Our profit, net of all costs including interest, closing, insurance, contractors, and everything else, was almost $30,000. Fidelity Title Company gave me a check for $13,845.01.*
>
> *The contractor himself made another $30,000 after he finished it and retailed it through MLS a few months later.*
>
> *—John Ward, Texas*

Subject-To Case: Lyle Uses Creativity and Flexibility

This next case is interesting in the various lessons that are displayed. It shows how Lyle was able to help someone even when it didn't appear to be a great deal for him personally. It highlights how investors can frequently solve a seller's problem creatively where it doesn't make sense for a Realtor to list. It also shows that the first tenant-buyer won't always be the one to conclude the deal. Each deal takes creativity and flexibility from beginning to end.

I received a call from a Realtor I know who had a friend going through a divorce with a small child involved. Since this seller had no equity in the property, my friend was unable to help her, so she brought me in, hoping we could find a creative solution to this dilemma. We paid her $500 to help with moving expenses—she was moving back home to her parents. These were the numbers:

First mortgage balance	*$109,000*
Second mortgage balance	*$ 26,000*
Total encumbrance	*$135,000*
Arrearages	*$ 4,200*
Cash to seller	*$ 500*
Repairs	*$ 500*
Fair market value	*$144,000*
Gross equity spread	*$ 3,800*

The only reason we did this deal was I made the mistake of letting my heart think, not my head. It was very thin, but I felt bad for her and her daughter. If we could help her, even without any profit, we would be doing a good deed. The home was only about four years old and needed nothing other than a good exterior cleanup and carpet cleaning with minor paint touch-up in the interior. We were able to take over subject-to, with no guarantees we could save it from foreclosure. We put it in writing that we would do the best we could, but no payments would be made until we found a buyer.

Lyle was not able to effectively use signs to advertise this house because of the homeowners association restrictions. By running a newspaper ad, he found a couple who wanted to buy on a lease option. The terms for his tenant-buyer were as follows:

- Purchase price (within two years): $149,900.
- Option fee: $5,000. The tenant-buyers paid Lyle $3,000 down and an extra $500 for four months. He applied all of this money toward the arrearages.
- Monthly rent: $1,495 with monthly cash flow of $50.

Lyle continues to the outcome of this case:

This buyer was in the property for about 16 months when the husband lost his job. They knew the terms and they agreed to vacate the property peacefully, leaving all their money on the table. This is a very important point: Make sure you have good, strong paperwork for tenants. We went back in and cleaned up the property and decided to sell outright because our market had turned into a strong seller's market.

—Lyle Reichenbach, Arizona

Lyle's seller was able to rid herself of a difficult situation that would have required her to pay money out of her pocket in order to sell conventionally. She was able to avoid foreclosure and move on with her life. His tenant-buyers were able to build their credit as they worked toward owning a nice home that otherwise would not have been available to them.

Lyle was able to take control of a nice property and market it for very little cash out of pocket. He ultimately sold it for a profit of $28,000 after managing it for less than two years.

These stories are just a small sampling of transactions completed by investors who have used the techniques described in this book to raise their income levels while creatively solving problems for buyers and sellers. The first step in this rewarding process is finding motivated sellers. That's where we're heading in the next few chapters.

These people all started out exactly where you are. You can realize the same type of success and find the same types of deals. These success stories are from some of the hottest and strongest markets in the country, and these people have been successful with the techniques that you will learn about in this book. Congratulations on starting today toward Future Financial Freedom—FX3.

PART 2

STEPS TO BUYING PROPERTIES ON LEASE OPTIONS AND SUBJECT-TO DEALS

CHAPTER 3

Finding Motivated Sellers for Lease Options and Subject-Tos

Motivated sellers are out there in every city, every town, every state. Finding a seller who will work with you on a lease option or subject-to isn't as difficult as it might seem—if you know which techniques work to attract their attention.

I recommend looking for motivated sellers with nicer homes that require little or no work. This way you spend less time working on the house and less time working to find a good buyer. Also, I like to focus around the median price range and above. In my area of Michigan, the median price range is currently $170,000 to $180,000; therefore I have focused on the $150,000 to $300,000 range. These nicer homes are much easier to resell on lease options and generally much more profitable than less expensive homes. It's also a lot more fun to work on nicer homes for more profit than on dumpy homes in rough areas for less profit—especially when you can buy the nice ones for little or no money down.

What Makes a Motivated Seller

A variety of circumstances and situations in people's lives can make them need to sell their home. These can include a job transfer,

bankruptcy, foreclosure, upgrading to a bigger home, or a number of other reasons. However, the circumstances of the sellers may also be affected by the state of the two vying markets—buyers and sellers—which also affects their motivation. For real estate investors it is crucial to buy homes from truly motivated sellers—sellers who have an extra urgency, usually financial. You can't get a good deal from an unmotivated seller who has no pressing reason to negotiate or give in on any part of a transaction.

There are different degrees of motivation and different reasons people need to sell their homes, but overall there are two basic categories of motivated sellers:

1. Desperate and distressed (bad debt)—someone in trouble financially, behind on payments, going in a bad direction, lost their job, going through a divorce, foreclosure, and so forth.
2. Not desperate or distressed (good debt)—someone not in trouble financially, not behind on payments, but motivated for other reasons: two house payments, inherited a home, burned-out landlord, job transfer, and so on.

Most real estate investors only go after the first category of sellers, but there is also huge profit potential with sellers that fall in the second category. Generally, lease option sellers should be people in the second category, while subject-to sellers will be part of the first category, though this is not a concrete rule. In this chapter we will discuss how to find motivated sellers of either type. In Chapter 4 you will learn the appropriate techniques to use for each kind of seller.

A final factor likely to affect a seller's levels of motivation is the state of the economy itself.

What You Need to Know about Buyer's and Seller's Markets

The economy plays a big role in finding motivated sellers in different parts of the country. I discuss this further in Chapter 6, but for now it

is important to understand how the economy affects motivated sellers. First let's define these two terms:

1. A *buyer's market (weak market)* is one in which real estate is not moving very quickly. There tends to be little or no appreciation, and possibly even depreciation. Sellers tend to be more open-minded about creative ways to sell their homes. There also tends to be higher unemployment in the surrounding area, and overall not a very good economy.
2. A *seller's market (strong market)* is one in which available real estate is moving very quickly. There tends to be high appreciation. Sellers may be getting multiple offers in one day on their homes, and bidding wars are common. There tends to be a high employment rate in the surrounding area, great retirement/vacation facilities, and an overall good economy.

When the market is very strong, people are able to sell their homes more easily, even if they are in the "desperate and distressed" category. In a buyer's market, it can be very difficult to sell a home. Yet, no matter whether it's a buyer's or seller's market, motivated sellers are always available. You just need to look harder and you might find fewer in a strong seller's market, whereas they're much easier to find in a strong buyer's market.

Techniques for Finding Motivated Sellers

The kind of motivation you are looking for is not just someone wanting to sell their house but someone who needs to get rid of their debt. These sellers won't come knocking on your door, however, nor are they ever obvious. You must try several different approaches and determine what works best in your area. It's a bit like fishing: Try a spot and a lure, and see if they work. If they don't work, move to a different spot and try a new lure. Here are some tools that have worked for my students and me over the years:

- Bandit signs. These are the small signs you often see on street corners or telephone poles around your city. They are called

bandit signs because in many cities posting them is illegal and you can be fined, but investors still put them out and risk incurring a fine for the sake of the potential profit of a deal they may bring. The signs might say "Cash for Your Home," "Stop Foreclosure," or the like. One of the advantages of buying a house on a busy street is to be able to advertise with a bandit sign in your own yard, which is generally legal (check your city ordinances). An investor I know who owns 30 houses in a subdivision deliberately bought the one on the busy entrance corner so that she could advertise on the lawn and pull people back into the subdivision to look at the other houses. Many companies make these signs and they are not expensive, so if someone removes them or they blow away, it's not a great loss.

- Advertisements in the newspaper. The way I usually find my sellers is either through ads they have placed in the paper or ads I have placed to fish them out. See the opposite page for several examples of ads that you can run that will attract sellers to call you. Experiment with different types of ads in your area, and also with different types of papers. You can try the smaller local papers, or the larger metropolitan area papers, depending on your budget and your target market. I have also placed ads in both the "for rent" section and the "for sale" section, depending on the ad.
- Tear-off flyers posted in public places like local drug stores, convenience stores, party stores—wherever you can get them posted. These flyers can say the same things as the signs and ads. The tear-off parts should have your phone number, your web address, and a short statement like "We Buy Houses."
- Letters to Realtors. Inform Realtors about what type of homes you buy and how you can help them sell their listings. This is one of my favorite ways of finding deals. I currently find 90 to 95 percent of my lease option sellers through Realtors. I discuss this in more detail in Chapters 10 and 11.

Ads to Attract Motivated Sellers

> Company looking for 3-4 homes in this area for long term lease. Call 123-456-7890.

This ad will draw in sellers who are considering something long term and those who want to rent their homes out. In other words, people who respond to this ad are ready to do the most important part of an option—lease—and to do it for a long period of time. This type of person does not need any cash out or they would not respond to this ad. The ones we're looking for are those who have not been able to sell their home, so they are willing to consider the four-letter word: *rent*. At the end of this chapter is a script that I use when calling about "for rent" ads in the paper. Use the same script, but only after they call you.

> Executive looking in this area for a lease-to-own nice home. Call (123) 456-7890.

This ad will draw in the people who own nicer homes and who will more likely be lease option sellers than subject-to sellers. Regarding the wording of the ad, we are executives in this business, right? I am, and hopefully you are too, so there is nothing dishonest in putting it this way. However, these sellers will naturally assume you are looking to live in the property yourself. Later, you will need to break the full facts to them slowly. This is covered in Chapter 6 in a discussion about handling sellers' objections.

(Continued)

> Home not selling? We can help! We buy and lease homes. Call (123) 456-7890.

This ad will bring in sellers who are starting to get very motivated. These may be people who are behind on payments or they may be getting motivated for other reasons. They could be either lease option or subject-to sellers.

> Tired of monthly payments? We can help. Call today: (123) 456-7890.

This fourth ad brings in sellers who are behind on payments, threatened with foreclosure, and also people who have two house payments. It brings in sellers with both good debt and bad debt. This is a great ad to bring in both lease option and subject-to sellers.

> Stop Foreclosure! Behind on payments?
> Don't lose your equity. We can help!
> Call us today! (123) 456-7890

The last ad brings in sellers in foreclosure and much more desperate circumstances. It is definitely a stronger ad. This will be used to draw in subject-to sellers only, sellers with bad debt. We will only buy subject-to when a seller has bad debt—this is discussed in Chapter 4.

- Letters in response to "For Sale By Owner" (FSBO) postings. Many times FSBOs (individuals selling their home without the assistance of a Realtor) think it will be easy to sell their own home, but when they start to deal with buyers, lenders, title companies, and so on, it can become overwhelming, and they can start to get motivated to sell quickly. It is not always easy to sell by yourself. Many investors work with FSBOs (pronounced "fizz-bos") in buying deals. According to the National Association of Realtors (NAR), in 2003 a FSBO typically sold for 20 percent less than if sold through a Realtor, so that's a significant savings to the investor.
- School directories, church flyers or directories.
- Long-term Multiple Listing Service (MLS) listings. If you are not a Realtor, you can hire one to do a search for you of listings on the market over 90 or 120 days old. These sellers are getting motivated because their homes are taking too long to sell. Also have the Realtor check for all the expired listings.
- Business cards. Your card should say that you buy or lease homes and give information about how to reach you, including your web site, your fax number, and so forth.
- Out-of-state owners. Many cities have services that allow you to find all out-of-state owners, or houses where tax bills are sent to addresses other than the property itself (non-owner occupied). Because out-of-state owners are far away from their property, they may want to get rid of the faraway headache and move on with their life. Also, they may not really know what the current market is anymore.
- Vacant homes are an indication that someone is making a payment on a home that is not being used. Write the owner a letter. You can send it to the vacant house and hope it gets answered, or you can try to find the owner through the post office, through township tax rolls, or by hiring a private investigation skip-trace service. Skip-trace services are great ways to find not only potential sellers but, later, missing tenants who owe you rent. These searches can be fairly inexpensive—check around for a good company that gives good

prices and reliable service, and ask for a recommendation from a Realtor or a place that does background checks. You'll start to hear a few names again and again, and you'll be able to make an informed choice.

- Through real estate investor clubs you can find other investors with homes they haven't sold and want to sell. Network and let others know what you do. I have bought several very good deals from other investors, either because they had their hands full at the time with their own deals, or the properties were out of their area. You should be a member of a local real estate investor club and regularly attend meetings. It is one of the best places to network.
- Corporate relocation departments have an inventory of homes that have not sold. If the company does not do a corporate buyout, the owners would be great candidates for a lease option. They have already relocated and need to have someone in that home and making payments.
- Your local chamber of commerce can tell you what businesses are leaving town, who is coming in, and so on. If you have many properties, they might also list you as a rental company and refer incoming people in the area to call you.
- Word of mouth. After you have been in this business and networked for a few years, you will start to find deals coming to you by word of mouth. Someone knows someone who knows that you buy homes. I have bought some of my most profitable homes by word of mouth.

Motivated Landlords

Landlords can be great motivated sellers, especially if they are burned out. If the economy is slow, they might have higher vacancies than in a fast or hot market. In my experience, I have found there are two basic types of burned-out landlords. The first type has watched a lot of late-night TV and decided to make millions in real estate. Unfortunately, many people buy real estate with no knowledge or experience, thinking they know it all after hearing a high-powered, adrenaline-rush

sales pitch. There are, however, many state and federal laws that regulate this business. This type of landlord will fall for the professional tenants and their stories and experience, and often end up getting burned. Understanding how to screen tenants and select them is key not only to being a good landlord, but also the business of selling by using lease options. By being a member of a local real estate group, you can get the education and assistance you need to be successful as an investor. If you want to find a group in your area you can check the National Real Estate Investors Association web site. See the Resources section in the back of this book for a group in your area.

The second type of landlord is more tired than burned. These landlords are retiring and ready to move on with their life. They don't need the money from the sale of a home, and in many cases they don't want to receive it yet. They usually have huge capital gains to contend with and may not want to pay those gains yet, or they may want to plan for a 1031 exchange.* By optioning their home to you, they might be able to better plan for a 1031 tax-deferred exchange. There are sellers who will sell to you on an option to avoid the taxes now but gain the benefits of renting their homes. With this solution they can benefit from cash flow and avoid the other issues of being a landlord that they don't like or don't have time for now.

When I purchase a home from a landlord, one of the benefits to him or her is that I usually completely assume the maintenance on the home, or ask them to assume only the first $500. I also take responsibility for the advertising, vacancies, showings, and so on. You can be very creative when structuring a deal with an owner of a home. The benefits for a landlord include but don't have to be limited to:

- *Maintenance*. Sellers don't have to deal with issues and calls. Even if they pay a portion of the costs, I handle the work.

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*A 1031 exchange is an IRS section that allows a person to exchange their like-kind property for another property of equal or greater value, and therefore defer (not avoid) the capital gains on the first property. For instance, if a seller has a home that they bought 10 years ago for $80,000 and it is now worth $140,000, and they have depreciated the property from $80,000 down to $40,000, then they would need to realize a $100,000 gain ($140,000 value less the depreciated value of $40,000 equals $100,000 of gain). This would be a long-term capital gain, but with a 1031 the gain could be put off into the future.

- *Showings*. Sellers never have to show the home again. I do the showings, take the calls, and discuss the home with all prospective tenants.
- *On-time rent*. They don't have to worry about the tenant paying each month. Their rent check comes from me, *regardless of whether the tenant has paid me on time*. My check is good and on time each month.
- *Advertising*. They don't have to advertise the home anymore. I pay for all the advertising and handle all the calls.
- *Vacancies*. They don't have to worry about vacancies anymore. I will pay whether the home is vacant or not. (You can negotiate this if the seller is willing—i.e., you have one month free rent in each X (any number you choose) months of the lease if you don't have it occupied.
- *Insurance*. They have extra liability protection when they lease option to me. I carry a $1,000,000 liability policy on properties that I don't own and am only optioning. This liability policy is really to protect me; however, if something really bad were to happen on this property, this insurance would be utilized in a defense, which would also protect the owner of the home.

These benefits alone will allow a landlord to feel comfortable with selling but also with taking in less rent than they usually charge. Talk about these benefits to help them see the advantage in leasing the home to you with an option. They now have fewer headaches, less overhead, and fewer fees and expenses, so they can afford to lease it for less. Because you are making a lower payment to the seller, you can also rent it to someone and have cash flow.

How to Evaluate Seller Ads in the Newspaper

Besides placing your own ads in the newspaper to attract sellers, you can also answer sellers' ads. In lease options I find that most sellers need or want their cash out. The best way to find a seller for a lease option is not the FSBO section of the newspaper, but the "for rent" section. Your goal is to turn the landlord into a seller.

Wendy's Tip

One trick to finding motivated sellers is to take the current real estate section of your newspaper and file it in your cabinet for a month. After a month, start calling those sellers. If their homes are still available, then they are getting more motivated. The longer a home sits, the more motivated they become.

The reason I don't call on ads in the "for sale" section is that 90 percent of those sellers must get their cash out and most of the other 10 percent won't consider something creative. It is not because they don't want to consider something creative—they would just prefer to cash out and be done with the property. Also, trying something unique will scare most sellers. Call the ads that are for rent, because the two main obstacles have been resolved: These owners apparently do not need to sell or to cash out of the home, and they are obviously willing to lease it.

How to Navigate Successful First Contacts with Sellers

The most effective way to contact sellers is by calling them. Immediately tell them your name to start building rapport, and try to keep your voice calm and soft. Be sure to ask questions appropriate to the area you are calling. What is important to that part of the country? A basement? A pool? A fenced yard? A certain type of landscaping? Updated kitchens or bathrooms?

When you begin to regularly respond to seller ads, consider setting up another phone line, perhaps toll-free or even a voice mail box just for that particular house or ad. I prefer that callers reach a live person, so if they call my office they get someone live. If they call after hours, they get a referral to another number where they can get a live person. However, if this is not feasible for you, be sure to check messages frequently and return calls promptly.

The following script can be useful when calling the owner of a rental home. The words in italics are what you say to the owner. Don't waste the seller's time asking questions that are answered in the ad or from their opening description, but do ask questions applicable to your area of the country, such as whether it is in a flood area, whether it has central air, whether it has ever had termites or been in a fire, how old the roof is, and so on. Ask whatever might be of interest to you and find out as much as you can about the home.

Hi, my name is ________. I'm calling about your home for rent. Can you tell me if it is still available?

Giving your name sounds warmer and will help put the owner at ease with you. It is a great way to begin building rapport.

When is it available?
Can you tell me a little about the home?

Let them volunteer some information about the home or ask them to expand on some of the information in the ad. You are building rapport with the owner. Talk and let them talk. People warm up when they are the ones talking. Listen and sound interested.

When was the home built?

This question gives you an indication of any decorating or maintenance problems you might run into, such as whether it might need to be updated. If the house is older, ask the next question; if not, skip to the one after.

Have the kitchen and bath(s) been updated since it was built?

If it was built in the 1970s, I often ask if the baths or kitchens are yellow/green/brown or if they have been updated.

Does it have a garage or basement?
Is the yard fenced?

This may prompt them to ask whether you have pets. At this point they still think you are the one who will be living there. I don't change that conception until enough rapport and trust have been developed. They may ask how many people will be living in the home. In such case I don't want to lie but I don't want to be totally direct either. If you say, "I don't know, I am going to rent it to someone else," you can be sure they will not show you the home. Each time these questions come up,

you will answer them differently, based on the owner. Here are three ways you could handle their questions:

1. Answer as if you really were going to live there.
2. Try to change the subject or slightly avoid the question.
3. Try to answer using your best guess of who might be renting from you later.

I am not recommending deliberate deception. I am very honest and straightforward with my sellers—but only after we meet in person or when I feel they are open to discussion about the entire situation. Because everything will eventually be in writing, they will know that you are not occupying the residence before they sign the documents.

If the home sounds like something you would like to own, then pop the question. If it doesn't, just be polite and say you will call back later if you are interested.

Wow, this home sounds really nice, would you considering selling it?

If they say no, then say, "Thanks, but I am really looking for something I can buy." Leave them your name and number so they can contact you later if they change their mind about selling.

Do you know how much you would want for the home?

Start to feel out the owner for the type of terms they would consider, but be careful not to make any verbal offers. This isn't the time for negotiation—you are still just gathering information. Construct your offer later when you are not on the spot.

When could I come and look at the home to see if I would be interested in it?

Make arrangements to go as soon as possible. This shows the seller that you have more than casual interest in the property. Set an appointment and keep it. If you must change your schedule, be sure to let the seller know ahead of time and make alternate arrangements for as close to the original date as possible. This courtesy will also demonstrate your genuine interest.

You have now called sellers, had sellers call you, and perhaps you've accumulated some leads to pursue. Now it's time to go look at the homes, continue to build rapport with the sellers, and gather more information. In the next chapter, you will learn more about which technique to use for each motivated seller you have found.

CHAPTER 4

Lease Options versus Subject-Tos: Choosing the Right Technique for the Right Situation

Acquiring investment real estate can be handled with many approaches. Two very popular zero-down approaches are lease options and subject-tos (also referred to as "getting the deed").

Wendy's Review of Lease Options and Subject-Tos

A *lease option* is a technique that involves gaining control of a property, but not ownership—just the right to take responsibility for a property now and purchase that property at some future date with defined terms.

A *subject-to* involves getting the deed to a property without taking on a new mortgage. Instead, the seller signs over the deed to his home "subject to" the existing mortgage. The buyer makes the mortgage payments on the seller's existing loan but does not take out a new mortgage to acquire the home.

Both of these techniques usually require little or no money down. In both, it is possible for the buyer to get money from the seller or the purchaser (or both) in the beginning of the transaction. These

techniques, when used properly, can result in large profits for the real estate investor. They are very effective individually and, when used hand-in-hand by investors, are almost an unbeatable pair!

Knowing when to use which technique is important. Many times, investors try to fit one technique into every situation, which can be a very dangerous approach. Choosing the right technique—lease option or subject-to—for your seller's situation can save you tens of thousands of dollars and protect not only you but your tenant-buyer as well.

To make a wise choice, you must have a clear understanding of two critical factors:

1. What type of motivated seller you are dealing with.
2. The techniques of lease options and subject-tos and how they best suit your seller—and you.

Know the Seller Situation

Finding a motivated seller is the first step to any good real estate deal. We tend to think of motivated sellers as people who are financially distressed, but I like to look at motivation from a much wider range. I like to divide motivated sellers into two groups:

1. Sellers who have bad debt. Solution: Get the deed—*no* lease option.
2. Sellers who have good debt. Solution: lease option or get the deed.

Sellers who have bad debt are generally in trouble. They might be behind on a mortgage, out of a job, down with an illness, in the middle of a divorce, and so on. In these situations, *you need to get the deed* with either a subject-to or an outright purchase. Your main concern is that this type of seller may continue to have financial problems that could affect the title to the property if the deed is still in their name. For example, any judgments or debts against such a seller can attach to any real estate the seller owns—and those judgments or debts would have to be paid off before you could exercise your option to buy. That's why you want to get this type of seller off of the title. Otherwise, their future problems could easily become your future problems.

Sellers who have good debt are not in trouble in the traditional sense, but they do have a reason motivating them to sell. Their problem is not financial desperation—it's simply a change in their lives. They might be transferring to a new location for a promotion, getting married (each owning their own home), building a new home, burned out on being landlords, and so on.

Once you have determined what type of motivated seller you are dealing with, the next step is to determine which technique, lease option or subject-to, best suits both your own circumstances and those of the seller.

The rest of this chapter discusses the advantages of lease options and subject-tos, the risks of each, the types of sellers that will accept these techniques, the benefits to the sellers, and a comparison of the pros and cons of each strategy.

Subject-To Advantages

Subject-tos have at least eight advantages. Some are the same as with buying an option.

1. Minimum or zero down. Usually you only need to pay the seller a small amount to sign the deed over to you. It's even possible that, if they owe more than you are willing to pay, they may pay you to take the deed from them.
2. No financing required. When you do a subject-to, you don't need to get a mortgage because you are taking over the seller's mortgage payments. Technically, you are not assuming the seller's mortgage. You are just making the payments on their existing mortgage.
3. Ownership. The day the seller deeds the property to you it is yours. You are the true owner of the home.
4. No qualifying. If you buy a home traditionally, you have to go to a bank or mortgage company and qualify for a loan.
5. No income or credit checks. Not once has a seller ever asked to look at my income or check my credit. They are more worried about their situation and how to get help from you.

6. You can buy them with your IRA. Very few companies handle self-directed IRAs. If you use your IRA for the option payment, the rent payment and any other income goes back into the IRA. Remember, the income from the Roth IRAs is tax-free for life. You can also do a subject-to with your IRA when there's a mortgage already in place.
7. Great return on your investment (ROI).
8. The seller will love you. You will be making a positive difference in someone's life.

Subject-To Risks and How to Avoid Them

The biggest controversy for a subject-to is the violation of the due on sale clause. This clause is a provision in the mortgage documents that says if the home is sold or transferred, the mortgage will be paid in full or the lender could call the loan due in full. This means that when the sellers deed the home to you, the lender can demand payment in full on the loan. However, most lenders will never know the seller transferred their title to you, as long as you make the payments on time. Most lenders are only concerned with receiving their regular loan payments in full and on time.

In a rare occurrence a lender, may for whatever reason, choose to call the loan due on a property transferred subject-to, instead of continuing to receive payments from an investor. You should disclose this risk to a seller and also be prepared to refinance the existing mortgage in the unlikely event that this happens. There is some speculation in the industry that many due on sale clauses have not been called because interest rates are currently low. If rates go up, then lenders will have a reason to call loans due: They will want to get the higher rates on these properties.

Most educators teach students to have the owner transfer title into a land trust, claiming this technique will bypass the due on sale issue altogether. Other educators believe that if the owner is putting the property into a land trust just to bypass the due on sale clause (i.e., covering up the breach of the due on sale clause), the transaction could later be considered mortgage fraud. Such educators think that you should be up-front with the lender and send them a

certified letter stating that you are taking the property and making the payments on loan. Most lenders will still not call the loan due (why trade payments for yet another foreclosure?). If the bank later tries to call the loan due, you can argue that they waived their right to foreclose by not calling the loan due up-front. Whichever approach you use, you should consult with a qualified attorney on the issue. The relevance of this issue may vary from state to state.

A land trust is roughly comparable to an entity, such as a limited liability company, except that it provides no liability protection. Like most trusts, there are generally three parties: the grantor, the trustee, and the beneficial owner. The grantor is the person who puts property into the trust. In the case of a subject-to, the seller is generally the grantor. The trustee is the person in whose name the trust's property is held. The trustee is also generally the person who administers the trust (e.g., signs deeds, pays taxes, etc.). The trustee is generally an individual. In most states, the beneficial owner of the trust can be the trustee of the land trust. The beneficial owner is the person who gets any payments or use of the property held by the trust. You or your company is normally the beneficial owner of a land trust in a subject-to transaction. In addition to making a breach of the due on sale clause less obvious, a land trust might prevent transfer fees or revenue stamps (the cost of transferring a deed) in many states. This cost can be many thousands of dollars in some states. Again, consult with a competent local attorney before using a land trust, because trust law varies from state to state. Also, as I mentioned, some experts do not advise concealing a breach of the due on sale clause. You and your attorney need to jointly weigh the benefits and risks of using land trusts.

Instead of a land trust, some investors use two insurance policies to help keep the deed transfer discreet. The lender generally won't know about a deed transfer unless someone tells them, and the way they often find out is when the insurance carrier notifies them of the change in ownership. Therefore, many investors keep two policies in force: first, the old homeowner's policy with the original seller, which really is not any good, since the seller no longer owns the home. Keeping this policy in place simply keeps that insurer from reporting a deed change. Second, the investor purchases a policy for himself, with the net result that he makes two insurance policy payments. Obviously, if you and your attorney decide that directly informing the

bank of the transfer is the best approach, there is no reason to keep the original homeowner's policy in force.

In my opinion, the best and most ethical way to handle a subject-to deal is to be completely honest. Let the lender know you did it. Send the lender a certified letter informing them of the ownership change. Keep proof of the letter and return receipt in your files. If the lender doesn't respond (most won't), then the law may hold that they have accepted the change by ignoring your letter. If they try to foreclose, then you may need to pay off the existing mortgage and refinance the property into your own name. If the property doesn't have enough equity to justify refinancing into your own name, then it probably was not a worthwhile deal to begin with.

You can also do nothing. Just do the subject-to and don't tell anyone. Wait for the lender/mortgage company to notice or say something. Most loans are never called following a breach of the due on sale clause—but the risk is there.

Wendy's Advice

Don't hide things or get involved in any type of fraud. Subject-tos are getting more attention. Do business by being honest and up-front, and without hurting anyone, and you will make money while making others very happy.

The big risk of using a land trust to hide a due on sale transfer, or of double-paying insurance for the same reason, is that if a court rules that the intent was to keep the bank from exercising its legitimate rights by hiding an important fact (the deed transfer), you can be accused of fraud. Telling the bank what you have done and being able to prove that you did so kills any chance of accusations that you hid the transaction. No deception, no fraud.

Another big controversy with subject-tos, and one reason I struggle ethically with them, is that many investors abuse them. I don't like the paperwork I see on many of the subject-tos and I don't like what I hear in the media. Subject-tos can be the most wonderful thing for some sellers, changing their life and saving their credit, but

unfortunately, they can also do the opposite. Much of the paperwork that I see says, in effect, "Seller, you understand when you deed me your home that I am not guaranteeing anything!" To me, it is distinctly unethical to take someone's home without guaranteeing you can make the payment. Such so-called investors can and do get criminally prosecuted for this, and I completely agree with such prosecution. Subject-tos can't be done by mortgage brokers and Realtors in some states because they violate the code of conduct and ethics. These states feel that assisting a seller to violate or circumvent a contract is wrong.

A subject-to can be a great way to buy property and to help many sellers who might not otherwise be able to find help. Most investors don't mean to hurt a seller, they just get in over their heads. They think that if a seller is willing to deed their home to them, it must be a good deal. Well, it might not be a good deal—check out Chapter 5 before you commit.

Wendy's Ethics Advice on Subject-Tos

A subject-to can really help a seller if done right, by helping improve their credit. If done wrong, it can mess up their life for a long time. Don't do a subject-to if you can't commit to making the payments. Only do subject-tos on what you can commit to, and then do what you say you will do! Only do the deal if the deal is worth doing. If you are unlikely to make a profit, you are more likely to do the wrong thing and default on your solemn promise to the seller.

So what else can I do besides a subject-to when I find a subject-to type of seller? I have three choices (the third is available only to licensed Realtors):

1. I can buy the home outright. I must get the deed, but I don't have to do a subject-to in order to get the deed. I can simply purchase the home, either for cash or by getting a mortgage. But because the seller does not fit the lease option technique, I must get the deed.

2. If the deal is very good, and I know it fits into a subject-to and not a lease option, I can wholesale the deal to another investor. Wholesale means buying very low and selling low. I might sell it for a profit of $3,000 to $10,000 without ever having owned it. Normally I would choose the preceding option, but this one is a great choice for those who want quick cash. You can always find buyers for good deals at your local real estate meetings. Get a buyers list together if you want to wholesale your leads. You can wholesale both lease option and subject-to leads. Normally in a wholesale you sign a contract and then do an assignment of the contract. For example, I would tell an investor, "I have a lead, and for $XXX I will pass it on to you." I would sell the lead, rather than signing on a contract for the deal. Be sure to talk with a competent local attorney, so you can structure your wholesale deal to not run afoul of local real estate brokering statutes.

3. I can also list the home for the seller and get a commission, if the seller has time to stay in the selling process. However, I rarely do this. Although I am licensed to sell real estate, I normally do not do retail real estate. I prefer to buy and sell real estate for investments and not as a broker for others. Also, many sellers don't have the time to wait for a sale to complete if they have financial problems.

Lease Option Advantages

A lease option has at least seven advantages:

1. Minimum or zero down. Whether you are buying from owners directly or through Realtors, there is little or no money required to buy on options.
2. Little or no risk. If you're buying a house on an option, you also maintain the right *not* to buy it. This, to me, is the best benefit of lease options. If the market goes up you can buy; if it goes down, you don't have to buy. It's your choice. If you own the home you don't have this choice—you can't just give it back to the bank. And with a subject-to you can't change your mind later, because you own it.
3. Monthly payment amount (rent paid to owner) is significantly less than a mortgage payment. Typically, I like to get a rental

payment for 0.5 to 0.6 percent of the value of the home per month. On a $200,000 home, that's $1,000 to $1,200 per month. If you can get that deal, you can get cash flow almost anywhere in the country. Unless you put a lot down on a mortgage, non–owner occupied mortgage payments will be closer to 1 percent per month for the same property (depending on mortgage programs and rates at the time). For instance, on a lease option the owner might owe $100,000 on a home that they lease optioned to me for $200,000 and their payment might only be $800 for principal, interest, taxes, and insurance (PITI). On a subject-to deal, it would not be nearly that low. The seller would not normally deed the home over if they only owed $100,000. In most cases they would owe more and the payment would be higher; therefore the investor would also be paying a higher monthly payment and not receiving as much cash flow.

4. No qualifying. In most cases you will never have anyone ask you for your income or credit information. This is done by building rapport with the seller or the Realtor (discussed in Chapter 6).
5. Great return on investment. The return on investment should be infinite in most cases, because in most cases you would be putting little or nothing down and getting a return and profit.
6. You can buy them with your IRA. You can buy lease options and subject-tos in your IRA. You must have a company that knows how to legally and properly invest and self-direct real estate through your IRA. I use Equity Trust, out of Ohio.
7. The seller will love you. The seller will be thrilled that you helped them with their situation. They won't be able to thank you enough if you looked for a solution that was a win-win. You must be fair.

Lease Option Risks and How to Avoid Them

The biggest risk for a lease option is the possibility of the seller having a problem financially. Although in the beginning we only lease option

from financially strong sellers, there are things that could go wrong in a seller's life. A lease option is control without ownership. Because the owner still holds the deed or title to the property, if they incur a financial problem, there is a chance the title/deed could have a lien placed on it. A lien can usually be placed on a piece of real estate if a person owes someone money, when certain procedures are followed. This may cause a problem such that it may not be possible for the seller to sell the home easily. This would be horrible not only for you, the investor, but also for your tenant-buyer. Fortunately, there are several things you can do to assist in preventing the repercussions of these things on you as the buyer.

First, make sure the seller is solid when doing a lease option with them. If they want to check your credit, ask to check theirs too. I have never checked any of my sellers' credit, but it is not a bad idea. You can also have a private investigator check them out if you are not sure. Find out where they are moving. Is it a better home? More expensive? Then you will know if they are moving up or down.

Second, make sure you record a memorandum of option. This is a document that gives the world notice that you have an interest in the property. Then the seller can't refinance the home or sell it to someone else. See Chapter 7 for more information about the memorandum. Finally, focus on and pursue primarily the sellers with equity. If the seller has a lot of equity in their home, then even if something bad did happen to them, they would have some cushion to fall on.

Let's look at three scenarios.

1. The seller has $50,000 of equity and has a $30,000 lien placed on their home by the IRS. No problem—the sale will close fine. The IRS will take $30,000 and the seller will get the remaining $20,000 of equity.

2. The seller has $50,000 of equity and the IRS has a $70,000 lien placed on the home. Again, the sale will close fine. The IRS will take the entire $50,000 and the seller will still owe the IRS $20,000. The IRS does not want to stop a closing but it will take what it is owed. You will probably have to coordinate with a title company or attorney, whoever does the closings in your state, to coordinate the payoff on the lien.

3. The seller has $30,000 of equity and has $45,000 of liens placed on them by five different individuals or companies. This one may be a problem if those five companies will not cooperate by taking

a smaller amount to close out this home. In other words, most lien holders will take something now to get a partial payoff rather than nothing at all. If they are owed $10,000 on a lien, they might take $7,000 now and would still be owed $3,000. In this case, the deal will probably still close, but it will take more work on the seller's part or, more likely, on your part to get these lien holders to cooperate. (Because of emotional tensions between the seller and the lien holders, the seller may not be the best one to negotiate with them to take a little less to make the deal close.) You might even be able to get them to take less as a full payoff—in other words, take $7,000 as full payoff for the $10,000. Either way, I have never heard of a deal where it could not work out. However, this is the risk for a lease option.

The worst thing I have ever had happen on a lease option deal was delinquent property taxes, which I knew about. There was plenty of money to pay for those at closing, and the sellers were not far enough behind to go into foreclosure over the taxes. Had they been in danger of going into foreclosure for back property taxes, I would have paid them myself or the seller would have paid them.

Wendy's Advice on Lease Options

Only buy from financially strong sellers. They are less likely to have any financial problems down the road. Sellers with equity are the best choice because if financial problems do arise they have some cushion to cover the problems.

Matching Motivated Sellers with Lease Options

As discussed previously, subject-to sellers are usually, but not always, motivated by bad debt and a desperation to restore their credit. Conversely, lease option sellers have good credit, and the sellers that would even consider a lease option fall into two categories:

1. Sellers who don't need their cash out of the home to move on.
2. Sellers who have no equity in their home—they are financed 100 percent.

I prefer a seller in the first category. Why? This seller has some cushion financially if problems arise later. The second category of seller does not have a cushion, and therefore if they get into financial trouble, they are more likely to botch up the deal—either permanently or for a period of time until things can be resolved.

Here are five types of motivated sellers with good debt.

1. *Long-time home owners*. They usually have very low payments, if any, and usually have saved money elsewhere, which enables them to purchase another home without selling the current one. These types of sellers also have the cushion of their home equity, which will mitigate any bad luck on their part. When a seller has a low payment, it creates a good opportunity for the investor to get a lower payment also. This will be good for creating strong cash flow.

2. *Inherited property owners*. Sellers who have inherited properties also have a potential of a lease option sale. If there are many heirs, say five or six, for instance, it is less likely to work out as an investment or rental property because in large families there is always one heir who is broke and needs the cash out. Also, when they divide the rent by five or six, the split of the money on the rental seems too inconsequential to bother with. This is why on inherited properties, I have found that cashing out the sellers (i.e., outright purchasing) is the best way with a large number of heirs, whereas lease optioning is a possibility with a small number of heirs. I have one lease option property now that the seller (one heir) has asked me several times not to pay off. We are now in year five. My price to her has not changed. She likes the cash flow each month and doesn't have to worry about maintenance or bounced checks when working with me. If the tenant-buyer in the home buys soon, then she will be cashed out. If not, she will probably continue to extend as long as I need it.

3. *New home builders*. The sellers have built or bought their new home and their old one hasn't sold yet. These sellers can afford both homes—they qualified for both—but why would they want to pay for two homes when one is vacant? As time goes on and the old home still has not sold, the seller's motivation becomes higher. This does not

mean the seller *must* sell, but that they really *want* to sell or get rid of that old payment. They did not need their cash to buy the new home, and therefore are a good candidate for an option.

4. *Newly married*. The seller has recently gotten married or moved in with someone who owns a home. This seller would not need their cash out to buy a new home, because they are living with someone who has a home. Since this seller could afford to pay the home payment before they moved in with their partner, they can certainly afford it after they moved in with someone. They just don't want to pay for a home that is sitting vacant.

5. *Job transfer*. The seller has been transferred out of state. This type of seller will not necessarily need their cash out of their home (equity) because they may not be sure how long they will be in the new location, whether the job will work out, or even where they would want to live.

Subject-To and Lease Option Pros and Cons: An Overview

Let's examine the comparative pros and cons of subject-tos versus lease options.

Subject-To Pros	*Subject-To Cons*
Title is in your name—full ownership.	You own it and have ethical responsibility to the seller even if the market changes or you can't sell the home. No changing your mind on this one.
Some sellers will pay you to take the deed.	Possible due on sale clause being called—therefore you might have to refinance or sell the property.
Easier to prove "seasoning of title" when you are the title holder; easier to refinance.	In some states, mortgage brokers and Realtors could be fined and/or subject to revocation of their license. It could be considered against

Subject-To Pros (Continued)	*Subject-To Cons (Continued)*
	their code of ethics to assist a person in violating a clause in a contract.
If you are on the title you will have long-term gains versus short-term, if you hold the home for longer than 12 months.	Sellers with lots of equity will be hesitant or completely against relinquishing the deed.
Lease Option Pros	*Lease Option Cons*
You don't have to buy later if the market drops or there is something wrong with the home. You can get out.	Title is not in your name so you are vulnerable to seller error. You must be careful to screen the seller. Only option from strong sellers, not those in trouble or headed for trouble (unless you put the deed in a land trust).
More sellers will do an option rather than give up a deed—especially on nicer homes.	You will have short-term capital gains versus long-term if you are not on the title. This can be avoided if you finance it with 12 months of payments (see the pros column), get on the title, and hold it for 12 months before closing with your tenant-buyer. This solution takes a minimum of 24 months.
After 12 months of payments, many lenders will treat a lease option as a refinance—as if you were on the deed. It would be treated like a land contract refinance.	Some sellers might feel an option is not closure on their home. Some will feel better with a deed being transferred or a lease purchase (which is a guarantee vs. an option).

(Continued)

Subject-To Pros (Continued)	*Subject-To Cons (Continued)*
A way to get nicer homes—more likely the seller is not behind and has taken better care of their home. This type of seller is also more likely to consider a lease option versus signing over the deed.	
Seasoning of title starts when you file a memorandum of option or lien of interest. Most lenders consider this adequate and similar to recording a deed (with the exception of FHA).	
Sellers with lots of equity are more likely to give you the right to buy the home than they are to give you the deed to their home.	Sellers with lots of equity usually want to close and get their equity out.

Putting the Techniques into Practice

Now let's see how you would apply these techniques in different situations.

An Example Where You Must Get the Deed

A seller calls you on the phone and says he is two months behind on payments. Do *not* option this home! This seller is in trouble financially and is not a good risk for an option. Anyone in a bad financial situation is not a good seller for an option. This is the type of seller that you must get off of the deed so that his financial situation will not affect the title to the property in the future.

Not every seller who is in financial trouble will tell you so, which is why you *always* need to do research on the title before you get the

deed or do an option. In this case, you will need to bring the seller's mortgage current. Before you do, you want to make sure that he is the owner of the property and that there are no other liens on the property unknown to you.

An Example Where You Could Get the Deed

A seller calls you who owes $135,000 on his home, which is worth $135,000. Since he has no equity at all, this type of seller might be willing to give you the deed. And if there is high appreciation or a very low payment, you might be able to make a profit even though there's no equity.

On the other hand, if the seller's payment is too high or the market is slow, you might need to have the seller *pay you* to take the deed. Yes, there are sellers who will pay you to take the deed to their home. Think about it: If this seller sells conventionally—that is, through a Realtor—he would have to pay up to $10,000 in commission to sell his home. Plus, he'll have closing costs, transfer taxes, and will probably pay points or fees on behalf of his buyer. If he's willing to pay all this money to an agent to sell the property—and wait 90 to 120 days to sell, too—why shouldn't he just pay you to take over his payments *now*?

If the seller doesn't have the cash to give you, an option would be your best strategy. This way, the seller can pay you the $10,000 over time, or you could arrange for the seller to pay part of the monthly payment during the option period. This way, if he stops paying his portion of the payments, you have the choice of surrendering your option and simply giving the property back to him. When you have the deed, you can't do this.

An Example Where You Should Lease Option or Lease Purchase

A doctor has a new home built for himself. His old home is worth $200,000 and he owes $125,000. He has $75,000 of equity. He is not behind on payments, and he did not need the $75,000 cash out to buy the new home. His old home is sitting vacant and the Realtor has not sold it yet. He qualified for both house payments at the bank and he can technically afford both, but who wants to make an extra house payment?

Although he is motivated to sell because he's paying out of pocket every month to own a vacant property, this type of seller is not going to simply give you the deed and let you take over the mortgage. No way is he going to give up all of his $75,000 in equity, and no way are you going to pay that much cash out of pocket.

When you lease option this house, he gets most of his equity back—although it won't happen until *you* sell the property. The deal might work like this: You option the property for $195,000, and make payments to the seller that equal his total mortgage payments. You sell the property on an 18-month lease option for $228,000 with payments to match. You get cash flow plus $33,000 in profit when your tenant-buyer buys the property; the seller gets his payments taken care of for a few years, then gets the bulk of his equity out. And in the meantime, he doesn't have to worry about management, vandals, frozen pipes, and all the other things that owners of vacant houses have to deal with.

An Example Where You Could Lease Option or Lease Purchase

The seller just inherited a property worth $120,000 from his parents' estate. It is owned free and clear and he doesn't need the cash from a sale but would love some cash flow on this asset. This seller is not going to give you the deed. Let's say you can lease option this property for $700 per month with $300 per month going to the purchase—or the option credit. Your real payment in this case is only $400. You also could do seller financing on this property (like a land contract or mortgage by the seller).

Conclusion

Subject-tos and lease options are great techniques to help sellers in situations that might not otherwise have solutions. If you do your research on the seller and the market, and apply the right technique to the right situation, you will make a profit for yourself and at the same time help a seller who really needs you. Make it a win-win.

CHAPTER 5

Evaluating the Profitability of the Deal

Winner: Stupidest Moves Award

My investors group gives an award called the "Stupidest Moves Award" for the person who makes the most ridiculous real estate move during the year. I didn't even know this award existed until I got it, and the only reason I got it was because I was chatting away about my deals to other investors. I received a mechanical shark, mounted on a plaque, that was devouring a large Monopoly® denomination, to depict the eating away of huge profits.

It was the early 1990s and one of my earliest deals with a Realtor. I was presented with a great deal for a $300,000 lakefront home. I felt I could rent it easily because of its price range and because it was lakefront property. Therefore, I quickly committed to start my option on October 1, whether or not I had secured a tenant-buyer. My rent commitment was $1,400 per month, and of course I planned to charge more in order to make cash flow. October turned into November, November into December, December into January, and January into February. Unfortunately, in Michigan, lakefront properties are not very desirable in the middle of winter. I finally rented it in March. In total I lost more than $7,000 plus utilities for

the winter. I was paying more for a house I wasn't living in than for my own mortgage.

I could have avoided winning this award by either (1) making my contract contingent on securing a tenant, or (2) waiting until spring to start the lease option. Lakefronts rent the best in the spring and summer in my area. People aren't crazy about moving into a property with a frozen piece of water in their backyard—water that may not thaw for months. I was too eager and didn't think it all the way through. Not only did I lose over $7,000 in profit, it was $7,000 in cash out of my pocket. Although I eventually made well over $25,000, it could have been $32,000 with much less stress. That's how I earned the "Stupidest Moves Award" in my investment group. It's not the kind of award you want to get more than once, but everyone has a story like that in their investment portfolio. It's just part of the learning process.

Eagerness to start a deal should never outweigh the need for thoughtful preparation in evaluation and construction of an offer. There are many sellers willing to sell on lease option and subject-to techniques, but they must be profitable for you!

Wendy's Tip

Know your climate. People don't like to move in the winter in a colder climate, so if you live in a place with bone-chilling winters, structure your deals, if possible, to start and end in the spring or summer. Also, try to work around holiday months, especially mid-November and December everywhere in the country.

Creating the Offer

Now that you've considered which technique to use, a lease option or subject-to, you need to step back and take the time to work out the profitability of the deal. Normally you should not throw out numbers to the seller in the excitement of the moment. Even if you feel pres-

sured, tell them you need to go back to your office and crunch the numbers. In the excitement of the moment you may voice a dollar figure that doesn't include all the things you need to consider. In the quiet of your office you will have the time to go through your own profitability worksheet, discussed later in this chapter, and make sure the numbers work for you. Negotiations and offers are an art form—take the time to do them well.

There may, however, be situations where you'll need to respond immediately, such as in the case of a subject-to offer on a pre-foreclosure or other competitive bidding situation. Lease option offers, by their nature, rarely require an on-the-spot response. Therefore, you can respond according to the dictates of each specific situation.

Calculating Your Profit Requirement

As an investor, you must determine your profit requirement for any given deal. It may vary depending on the type of investment. For instance, I will accept less for a rehab than a lease option, because I can be in and out of a rehab within a few months, while lease option transactions typically require 12 to 18 months or more. Do you require $10,000 profit, $50,000, or what? Once you determine your profit requirement, that becomes the bottom-line number that must be reachable in order to take on a transaction. For example, if your required profit is $20,000 and an opportunity comes along that will earn you only $18,000, then you'll need to either negotiate the terms of the deal to meet your $20,000 requirement or pass up the deal. Otherwise it will not be a win-win situation for the seller and yourself. Alternatively, you might be able to wholesale the deal to someone else who has a bottom line that is lower than yours, but learn to walk away from deals that don't work for you.

There are times when a seller will do only X, Y, and Z in terms of price, payment, and length of time. You can input those numbers into the spreadsheet in this chapter to determine if the deal meets your profit requirement. Sometimes, if it doesn't, you can negotiate a little further, as discussed in Chapter 6. Often the seller is not firmly

set on X, Y, *and* Z, just X and Y; therefore you can negotiate the Z. Chapter 6 will help you think of creative ways to help bring deals together. However, there will be some deals where you will need to just walk away. Some sellers are simply not willing to do what you need to make it a win-win; some are not motivated enough or can't go down far enough on price because they owe too much. Wasted time is money to you, so learn to move on quickly and look for another motivated seller.

Profitability for Lease Options

The first thing we'll do is create a worksheet for profitability for a lease option. We will cover subject-to transactions later in this chapter.

Appreciation can't be predicted exactly, so you will need to estimate it. Newspapers are a great source for the appreciation rates in your area. Base your estimates on the predictions of your local writers or Realtor boards. When calculating your option premium, use 5 percent in areas that are very consistent—condos, or in neighborhoods where all the homes are almost identical in size or model. If the neighborhood is very diverse, then you may use up to 10 percent, as the comparables should be there for the appraiser when you go to sell the home.

You also need to determine Cash flow or rental values. You can do rental comparables just like you do sales comparables. Here are three ways to find the rental comparables:

1. Read the local paper. Check all the local rentals. Those are your "comps," or comparables.
2. Check with people in your local landlords group. Many rentals are not on the MLS.
3. Not enough data from the first two sources? Run a test ad in the newspaper. Too many calls? Your price might be too low. Too few? Your price might be too high. It's a little like fishing—change the bait and see what happens.

Now let's use this worksheet to calculate profitability on three example deals.

Profitability Worksheet Lease Option		
Purchase Costs		
Purchase price		
Total purchase costs		
Income Sources		
Current value		
Value of lease option premium (5–10%)		
Expected appreciation		
Expected sale price		
Expected monthly cash flow		
Total other income		
Expected Profit		

Example 1

Seller will sell you their home for \$185,000. It is currently worth \$190,000. The appreciation rate is 5 percent per year. It will be sold on an 18-month option, which will result in 7.5 percent appreciation (5 percent × 1.5 = 7.5 percent). That gives us \$14,250 (\$190,000 × 7.5 percent) of appreciation value during the 18 months. You'll pay the owner \$1,300 in rent. You can rent it out for \$1,600, for a cash flow of \$300 per month. I usually rent a home for \$1,595 versus \$1,600 (\$1,595 sounds like less than \$1,600 and is therefore more appealing to potential tenant-buyers), but it is easier to show even numbers for each of the examples.

The homes in this neighborhood are diverse and unique. Prices range from \$170,000 to \$285,000. This allows us to build in a higher option premium of 10 percent, or \$19,000. The \$19,000 option premium and the \$14,250 appreciation adds \$33,250 to the retail value of

the home. What is your estimated profit in 18 months? Let's view how I would figure out the profit of this deal:

Profitability Worksheet Lease Option	**Example 1**	
Purchase Costs		
Purchase price	$(185,000)	
Total purchase costs	$(185,000)	$(185,000)
Income Sources		
Current value ($5,000 above purchase price)	$ 190,000	
Value of lease option premium (10%)	$ 19,000	
Expected appreciation (5% annually, 7.5% over 18 months)	$ 14,250	
Expected sale price	$ 223,250	$ 223,250
Expected monthly cash flow ($300 per month for 18 months)	$ 5,400	
Total other income	$ 5,400	$ 5,400
Expected Profit		$ 43,650

The resulting profit from this deal, if all payments were made during this option period and it went the full 18 months, would be approximately $43,650, less transfer fees, title insurance, and possible option credits from the investor (you) to the buyer. Does this meet your required profit? If so, then move forward with these terms. If not, you continue negotiations on the deal or pass it up.

Example 2

Seller will sell you their home for $145,000 on a 12-month option. It is worth $145,000. The appreciation rate is 3 percent per year, which will result in an additional $4,350 ($145,000 × 3 percent) after one year. This home is in an area where all the homes are similar and range in price from $140,000 to $152,000. This results in a more modest option premium of only 5 percent, or $7,250 ($145,000 × 5 percent). The appreciation and the option premium total $11,600 ($4,350 + $7,250). You'll pay the owner $1,000 in rent and will in turn rent it out for $1,200. The seller is also willing to give you $200 a month

credit toward buying this home. Let's look at your estimated 12-month profit:

Profitability Worksheet Lease Option	**Example 2**	
Purchase Costs		
Purchase price	$(145,000)	
Total purchase costs	$(145,000)	$(145,000)
Income Sources		
Current value (same as purchase price)	$ 145,000	
Value of lease option premium (5%)	$ 7,250	
Expected appreciation (3% annually)	$ 4,350	
Expected sale price	$ 156,600	$ 156,600
Expected monthly cash flow ($200 per month for 12 months)	$ 2,400	
Option credit from seller ($200 per month for 12 months)	$ 2,400	
Total other income	$ 4,800	$ 4,800
Expected Profit		$ 16,400

This deal would not be nearly as profitable for an investor. It would only generate $16,400 before closing costs, not leaving much room for potential problems. This opportunity does not meet my minimum profit requirement. However, there are ways to renegotiate the deal with the seller. With the appreciation this low, it must be more of a buyer's market. You should be able to negotiate price and terms. Ask for a better price and for additional monthly credit towards the purchase. You can also ask for the equity buy-down of the mortgage during the option period. For example, if the seller owes $100,000 on the home at the start of this option and at the end they only owe $90,000, then you would receive the $10,000 of credit that was paid on the mortgage balance during the option period, because in effect you had been paying that mortgage payment during the option period.

If the seller does not agree to the additional terms, let it sit until their motivation increases enough for them to agree to terms that would make this transaction meet your profit requirement. It must meet your bottom-line number and result in a win for both you and the seller.

Example 3

Seller has a home worth $235,000 and they will sell it to you for $225,000 on an 18-month option. The appreciation rate is 5 percent per year (or 7.5 percent over 18 months), which would generate an additional $17,625. This home is in a very diverse area out in the country. The homes vary widely in square footage and acreage, and prices range from $150,000 to $450,000. These factors let us establish the option premium at 10 percent, or $23,500. The rent you pay the owner is $1,200, and the market rent you expect to receive is $1,450. The seller owes $150,000 on the mortgage and agrees to take $75,000, less closing costs, at the time of closing ($225,000 sales price less $150,000 current mortgage balance). This allows you to get the mortgage equity during the option period. The equity from the principal pay-down during this option period is estimated at about $200 per month or $3,600. What is your estimated profit in 18 months?

Profitability Worksheet Lease Option	**Example 3**	
Purchase Costs		
Purchase price	$(225,000)	
Total purchase costs	$(225,000)	$(225,000)
Income Sources		
Current value ($10,000 above purchase price)	$ 235,000	
Value of lease option premium (10%)	$ 23,500	
Expected appreciation (5% annually, 7.5% over 18 months)	$ 17,625	
Expected sale price	$ 276,125	$ 276,125
Expected monthly cash flow ($250 per month for 18 months)	$ 4,500	
Expected monthly equity ($200 per month for 18 months)	$ 3,600	
Total other income	$ 8,100	$ 8,100
Expected Profit		$ 59,225

Note that no commissions are paid to Realtors in these examples. Working with Realtors is discussed in Chapters 10 and 11. However, if you are paying any Realtor commission or option fee up front to your seller, you will have some out-of-pocket costs. This will

not affect your bottom-line profitability, as option fees are applied to the purchase price at closing, but it will affect your up-front cash out-of-pocket expenses.

Which of the three scenarios will get you to financial freedom? The answer is that they all can, if you do them correctly. The second one would probably require changes from the seller to make it work for you.

The primary profit source is the back end—the difference between the purchase price and your selling price, which is realized at closing at the end of the lease option period. When you're first starting out, you might deal with smaller back ends. That's fine—those deals help you learn the business. As you become more skilled in working with options you will find more ways of improving the numbers to get you higher returns that are still a win-win. Obviously, the higher the back end, the easier it will be to begin working your way towards your financial goals.

Wendy's Tip

There are always unexpected costs in any deal and, so, I like to make sure that I have extra profit built into any real estate transaction. Always plan for something that could go wrong—someone who won't pay rent, a furnace that goes out, a roof that leaks, a septic field that fails, and so on. Plan for the worst and you will be safe.

Profitability for Subject-Tos

Subject-to transactions are similar to lease options except you will be taking over a loan balance and possibly other liens or back taxes. Once you complete a subject-to negotiation, you will be done with the seller. You'll have the deed to the property and you won't close with the seller again the way you do with a lease option. The worksheets seem more complex and there are more numbers to fill in, but they are essentially not much different than lease options.

As with a lease option deal, you will need to determine whether

a subject-to deal is profitable enough to consider. You must run the numbers. Here is an example of a profitability spreadsheet for a subject-to deal.

Profitability Worksheet Subject-To	**Totals**	
Purchase Costs		
Balance owed on first mortgage	$	
Balance owed on second mortgage	$	
Back payments and liens (Up-front cash requirement)	$	
Total debt owed on property	$	$
Income Sources		
Current value	$	
Value of lease option premium (5–10%)	$	
Expected appreciation	$	
Expected sale price	$	$
Expected monthly cash flow	$	
Additional principal from mortgage	$	
Payments during option period		
Escrow balance	$	
Other income	$	$
Expected Profit		$

In addition to the elements of the base option worksheet, this worksheet asks for information about the balances on the loans, other liens, principal of the mortgage during the option period, and escrow balance. The principal on the loan is negotiable on a lease option deal, but it is a given on a subject-to deal because you are now the owner. You will get the principal for as long as it is optioned to a buyer. The exit strategy (selling it on a lease option) will be figured out the same way for a subject-to as in the previous lease option examples.

Any back payments due on a mortgage are also part of the current balance due reflected on a mortgage. In other words, if the lender shows that the balance is $145,500 and the amount currently due is $3,200, then the balance will be reduced after the $3,200 pay-

ment is made. Make sure you show that in your calculations and adjustments. The escrow balance is the amount in the escrow account at the time of the subject-to assumption. The escrow account contains funds set aside to pay the taxes and insurance that will be due in the future. If you complete the applicable paperwork, you can make sure that any outstanding escrow funds go to you, rather than to the previous owner.

Note: Escrow numbers vary monthly. The numbers in these examples are simplified. Also, the cash flow and principal payments have been rounded to even numbers to make the spreadsheet figuring easy to calculate. This is also how I do it in my deals. Tracking numbers down to the penny unnecessarily complicates your analysis.

Example 1

The seller owes $140,000 on their first mortgage and $23,500 on their second. They are behind $3,300 between the two mortgages. Their property taxes and insurance are current and they have no other liens on the home. The home is currently worth $175,000, and it is in a market that is appreciating at 6 percent a year. The neighborhood is diverse and has many comparables. It is comprised of homes ranging from $150,000 to $250,000. We will set the option premium at 10 percent to sell this home to our tenant-buyer.

The payments between the first and the second mortgage are rather steep: $1,050 for the first, which includes taxes and insurance, and $150 for the second mortgage, for a total of $1,200. This home will only rent for $1,100 a month, so you have a negative cash flow situation. It is not uncommon to have negative cash flow on a subject-to for two reasons: (1) Many sellers have two mortgages, which results in higher payments; and (2) many sellers have higher interest rates due to poor credit, which also results in higher payments.

The principal portions of both mortgage payments during the option period are approximately $250/month, or $3,000 for the 12 months ($250 × 12). The escrow balance received from the seller when the home was purchased was approximately $1,750.

Profitability Worksheet Subject-To	**Example 1**	
Purchase Costs		
Balance owed on first mortgage	$(140,000)	
Balance owed on second mortgage	$ (23,500)	
Back payments and liens (Up-front cash requirement)	$ (3,300)	
Total debt owed on property	$(166,800)	$(166,800)
Income Sources		
Current value ($10,000 above purchase price)	$ 175,000	
Value of lease option premium (10%)	$ 17,500	
Expected appreciation (6% annually)	$ 10,500	
Expected sale price	$ 203,000	$ 203,000
Expected monthly cash flow (–$100 per month for 12 months)	$ (1,200)	
Additional principal from mortgage Payments during option period	$ 3,000	
Escrow balance	$ 1,750	
Other income	$ 3,550	$ 3,550
Expected Profit		$ 39,750

Would you do a subject-to deal for $39,750? If so, this is a good deal for you. The numbers do not include the transfer fees, title insurance, and any option credits given to the buyer at closing. You need to keep in mind the up-front funds required to do this deal. It requires $3,300 cash when you take the deed and a negative monthly cash flow of $100.

Example 2

The seller owes $322,000 on the first mortgage and does not have a second mortgage. They are current on their mortgage payments of $1,900 per month PITI. They have no other liens owed on the home. This seller is not in financial trouble but is willing to give you the deed on the home, which is worth approximately $340,000. The neighborhood is fairly consistent with comparables, so only a 5 percent option premium is available on the resale side. Most of the homes range from $340,000 to $350,000 and are similar in size and square footage.

The real estate market in this area is appreciating slowly at 2 percent and the rental rate is $2,000 per month. You can sell it on an

18-month lease option. There is a $2,200 escrow balance available and the mortgage payments have approximately $200 per month going toward principal.

Profitability Worksheet Subject-To	**Example 2**	
Purchase Costs		
Balance owed on first mortgage	$(322,000)	
Balance owed on second mortgage	$ —	
Back payments and liens (Up-front cash requirement)	$ —	
Total debt owed on property	$(322,000)	$(322,000)
Income Sources		
Current value ($10,000 above purchase price)	$ 340,000	
Value of lease option premium (5%)	$ 17,000	
Expected appreciation (2% annually)	$ 6,800	
Expected sale price	$ 363,800	$ 363,800
Expected monthly cash flow ($100 per month for 18 months)	$ 1,800	
Additional principal from mortgage Payments during option period	$ 3,600	
Escrow balance	$ 2,200	
Other income	$ 7,600	$ 7,600
Expected Profit		$ 49,400

Why is the profit on this deal better than the prior scenario, when the appreciation rate and option premium are lower here? This one comes out better because of the higher value of the home. The appreciation and option premiums are based on a larger value. This one would be more risky if you couldn't rent it for $2,000 a month, in which case you might want to rent it for less and take the negative cash flow for a few months until you can refinance it with a better rate loan. If the mortgage rates are low enough, you might be able to get a lower payment and make this home generate a positive cash flow.

Example 3

The seller owes $110,000 on a first mortgage and $22,000 on a second mortgage. The payments are $870 for the first mortgage and $150 for the second. The taxes and insurance are an additional $210 per

month. The total of all payments is $1,230 (principal and interest for both mortgages, along with taxes and insurance).

The seller is behind two years in taxes for $4,200 (including penalties) and three months of payments on the first mortgage for $2,610. The home is valued at approximately $135,000. Homes in the area are very similar and the option premium would be only 5 percent. The appreciation in the area has been fairly steady at approximately 4 percent per year. You can do a 12-month lease option and rent this home at the market rate of approximately $900 per month. This would put you in a negative cash flow situation. The payments on the mortgages are going toward principal at approximately $300 per month, and there is no escrow balance on this loan.

Profitability Worksheet Subject-To	**Example 3**	
Purchase Costs		
Balance owed on first mortgage	$(110,000)	
Balance owed on second mortgage	$ (22,000)	
Back payments and liens		
Back payments $2,610		
Taxes owed $4,200 (Up-front cash requirement)		
Total debt owed on property	$(132,000)	$(132,000)
Income Sources		
Current value ($10,000 above purchase price)	$ 135,000	
Value of lease option premium (5%)	$ 6,750	
Expected appreciation (4% annually)	$ 5,400	
Expected sale price	$ 147,150	$ 147,150
Expected monthly cash flow (–$330 per month for 12 months)	$ (3,960)	
Additional principal from mortgage	$ 3,600	
Payments during option period		
Escrow balance	$ —	
Other income	$ (360)	$ (360)
Expected Profit		$ 14,790

This deal does not look good at all. You will only make $14,790, less transfer fees, title insurance, and any option credits you give your buyer. This also assumes nothing else goes wrong with the deal. Along with the low profit margin, you would need to pay $6,810 out of your pocket and endure 12 months of negative cash flow.

What can you do? You must negotiate more with the seller. Chapter 6 discusses in more detail how to negotiate with the seller, but in this example one thing you can do is ask the seller to pay the $6,810 that is behind, or make payments on it to you. You can also ask the seller to continue to make payments on their second mortgage while you make payments on the first mortgage only. Some sellers will even pay you to take the deed to their home so they can move on with their lives. Adjust some things around to see if anything can be done with the seller to make this deal work. But you may just need to say, "Next."

CHAPTER 6

Negotiating the Deal: Steps to Buying on Lease Options and Subject-Tos

Build Rapport and Make a Deal!

In one house I visited for a potential purchase, the woman had a lot of birdcages in her garage, and all of them had price tags. Either she was about to have a garage sale, or she had already had a fairly unsuccessful one. I didn't know anything about birds, but I suddenly had a crazy thought that I could get a parrot and teach it to say, "Hi, welcome to Majestic Realty" when people came through the office doors. I dropped the idea pretty quickly when she told me that birds pick up almost everything they hear you say—I could just imagine it repeating things my office staff say when they hang up the phone from tenant calls: "That tenant is lying"; "Liar, liar"; " Yeah, Grandma died again!" Nevertheless, I continued to chat with the seller about different types of birds while looking around at the house.

This is an example of how to build rapport with a seller. People like to talk about what is important to them. It makes them feel more comfortable with you. As it turned out that day, one of the cages was marked $20 and I decided to buy it, thinking perhaps one day I'd get a bird. I couldn't fit the large cage into my car, so I told her that I'd send some of my work crew back that evening to pick it up in their truck.

At this time, we were in a strong seller's market, and I already had a tenant-buyer who wanted to buy this home, and I was going to try to purchase this home outright. Our market was *very* hot!

I made an offer through the Realtor the very first day. She called me that evening and said, "Well, we have another offer."

I had figured this was possible. That home had just come on the market that morning, but homes don't stay on the market long in a hot market, especially in that price range.

She continued: "But let me tell you the stupidest thing I've ever heard."

I said, "What?"

The Realtor said, somewhat angrily, "She accepted your offer."

I asked, "Why is that so stupid?"

"Because the other offer was $5,000 more than yours with the same terms, and that's just stupid to me, Wendy. But do you know why she accepted yours? She likes you."

Did the birdcage discussion save me $5,000, or did it get me the house? I think it did both. I didn't buy the cage to get the house, but everything you can do to make a prospective seller feel comfortable with you will ultimately be worth it. I always tell my students that if they are not comfortable building rapport with sellers, they should send someone else, because it is such a crucial element to succeeding in this business. That seller was not in position to just give away $5,000, yet it was important enough for her to sell her home to someone she felt good about that she took $5,000 off her price. Make it a point to establish rapport and you will almost always get a better deal.

How to Build Rapport with a Seller

If you were trying to sell your house, who would you give a better price to? The buyer who came in saying, "I don't like your carpet color. Are you going to replace it? The walls won't match my furniture. This kitchen is just not my style"? or the potential buyer who said, "I like the layout. I see there's a ding in the wall. You don't mind if I fix that, do you? I just want to make this my home. I love it." You would choose the second person, of course, because they are reasonable and are trying to work with you. You would instinctively want to work with them.

Building rapport with the seller is key to making a deal. If the seller doesn't like you, the deal will probably never happen. Therefore, if meeting people and being reasonably conversational and interested in the seller's home isn't your strength, take someone with you who is warm and friendly and can bridge that gap for you. The reason this is so important is because, for either lease option or subject-to transactions, you're asking someone to give you control of their house with little or no money down. They must feel comfortable with you.

Wendy's Tip

When you're in the seller's house, tell them what you like about it, not what you don't like. For example, perhaps you'll see something unusual, like older wood work or a nice fireplace. Ask the seller about it. If you see that the seller likes golf, talk about golf, whether you like golf or not. Always focus on the positives, the interesting things. People like to know that you like their house, which builds immediate rapport.

In a rehab situation, while it's still important to establish rapport, it's also appropriate to point out problems in the property. You want the seller to be prepared for your lower offer when it comes. Buying at a low price is more critical to your profitability when doing a rehab and sale than when taking control of a property and holding on via a lease option or subject-to approach. But in a lease option or subject-to, emphasize the positive—you will want the seller on your side.

I start out with rapport building questions. As I enter the house, I quickly look around for items connected to children or pets, or something of significance, like a hobby or a collection—anything that I can use to talk about something of interest, other than the house. Then I ask about those items. I'm seeking to get everyone to lighten up, and talking about something significant in their life will do that.

Then I ask, "What is it that you're trying to accomplish with the house (not "your home"—I want to separate out the emotional ele-

ment) as a result of my help?" And I shut up and listen, using my facial expressions and body language to acknowledge that I understand. I want them to see that I honestly care about them and their situation (and I do—if the deal isn't right for them, I won't do it). This will pay off huge returns when we start talking about the terms of the deal. They don't care that I've been in real estate for over 20 years and they don't care that I've done over a thousand deals. They don't care that I taught the loss mitigation department for the third largest diversified lender in America how to work with investors. What they care about is whether I can help them with the problem that's in front of them.

Some sellers like to feel like they're dealing with an individual rather than a company, while others like to be reassured that there is a company behind the person. Each seller is different, and you need to learn how to read them and accommodate them. The more personal you can be with a seller, the better they will feel about making the deal. Of course, when the paperwork comes through, it will have my company name, but when I'm talking with the seller it's just between them and me.

Books have been written on negotiations with sellers. Read them to get more details on the psychology of negotiating. Some of them have really helped me understand people and why negotiating itself is so important to completing a deal. This chapter offers ideas specifically on building rapport with sellers, presenting informal proposals to them, negotiating terms, and handling their questions and objections for lease options and subject-tos.

Putting Together the Proposal/Offer to the Seller

I tell my students to follow three basic steps in writing a proposal or offer to the seller:

1. Keep it simple.
2. Do your homework.
3. Determine your offer.

Keep It Simple

Sometimes we get too formal. We want to make sure we have the proper letterhead and business cards and look official up front. We feel this gives us the legitimacy a seller expects. However, counterintuitively, there are times when too much polish may in fact be detrimental to us because the seller finds it impersonal. Save the formal documents for after the deal is negotiated, when it needs to be drawn up in detail (see Chapters 7 and 8). For preliminary proposals it's best to outline several scenarios, even handwritten. (Refer to the proposal in Chapter 11 used with Realtors. You can use the same format with a seller—less any commission or Realtor information.) Many deals are made on bar napkins, and they are legitimate and legal as long as they are signed. It's all about personal relationships, not just professionalism. The seller needs to like *you*, not your business card.

Putting out an offer is a lot like fishing. We're trying to find out what's important to the seller, where they are financially, whether they need their cash out, and what terms will work for them. If the seller is not sure, use the proposal format in Chapter 11 and give them a few scenarios in writing to help them evaluate different alternatives. Many times they will know what areas are most important to them. For instance, price might be the most important area to a seller. You then can work around price by negotiating the other areas of terms to make the deal work for you. You will have to tweak the other areas of the lease option or subject-to in order to get your profit requirements, but at least you know where the seller is starting—where they are firm and what is important to them. Then use the profitability worksheets in Chapter 5 and make sure the numbers will work for you.

When you agree on the terms with the seller, then you should formalize the contracts. When I think there is going to be a meeting of the minds, or if the Realtor says they want everything in writing, or if the seller says "I want to see every piece of the contract before I agree," then I put everything together. I try to make my offer in the way the individual seller prefers it. Some like to just discuss it and others want it in writing. Occasionally, timing is critical and negotiations must be done quickly, and contracts are also drawn immediately.

Do Your Homework

You can't put together a proposal without first doing some research, especially if you are in an area of town that is new to you. You can't base your offer purely on what you think the home is worth; you must incorporate the comparables as well. Find out what similar homes in the area are worth, either by checking the newspaper or using the MLS. The MLS is protected by Realtors in most areas of the country; however, it is available to the public in some parts of the country. Ask investors in your local real estate investor club the status of the MLS in your area. If you have a relationship with a Realtor, you can ask them what the comparables (comparable market values) are in a certain neighborhood.

Understanding the current economy is essential to making offers on lease options and subject-tos work, and work effectively. For instance, are you in a strong buyer's or seller's market? Understanding the differences and how they affect the sellers is key to successful negotiations. The techniques I teach will work in either a buyer's or seller's market; however, it is important to know which market you are in so you can establish your offer correctly. (See Chapter 3 for more about buyer's and seller's markets.)

Strong Seller's Market

In a seller's market you're going to buy higher. When things are appreciating in a seller's market, I have no problem paying closer to retail for a property. There are times when you could even pay higher than retail and still be profitable based on favorable appreciation and other terms. You must work the numbers yourself. Your value in the property is going to come from not only the appreciation but also from the lease option when you sell.

Strong Buyer's Market

The opposite is true in a buyer's market. The economy will be slow, probably with higher unemployment rates. Real estate listings aren't moving, in which case you need to buy low—meaning below the retail value—because you can't count on appreciation. When the market is slow, the buyers have less money and are less able to take on more debt. The advantage of the buyer's market is that you can cherry-pick your deals.

Remember this in negotiating with your sellers. If your sellers are unwilling to give, you have to move on, because they are not the motivated sellers that we discussed in Chapter 3. The slower the market, the more you can negotiate. As more properties are languishing on the market, there is a large pool of motivated sellers for you to choose from. You can be selective in order to find deals that work out for you and the seller.

How to Determine Your Offer

The following are potential areas of negotiation for a subject-to:

- Price.
- Seller paying part of payment.
- Seller paying to take over payments.
- Length of term.
- The point at which the agreement locks in.

With lease options, there are too many variations to discuss in detail, so I will mention only the key areas available for negotiation. When structuring your lease option with the seller it is important to understand which of these criteria are most important for them:

- Price.
- Length of contract.
- Monthly payments.
- Option credits.
- Mortgage buy-down—the principal adjustment.
- Automatic renewal periods.

In addition to these criteria, I usually include terms that will limit my risk. One approach is to include a clause that says my lease option can be terminated within 60 days with written notice to the owner. This provides an agreeable exit to problematic transactions.

Another method that I use even more frequently is to make the

start of the lease option contract subject to finding a tenant-buyer. This significantly reduces your overall risk and avoids having to begin funding monthly payments before you have your own funding source in place.

Multiple Offers

Sometimes you will need to create multiple offers on the same property. This is usually for a lease option, but it may also apply to some subject-to offers. For example, let's say I make an offer of three years at $225,000 and pay the seller $1,000 per month. The seller then looks at appreciation rates and says they don't want to lose out on all the appreciation that I will profit from in the next three years. So I then structure a second offer where I might offer to go five years and give them a little more on the sales price as well as a little more each month, but they have to agree to all five years. You might also want to do a step approach based on appreciation with a lower percentage than the market appreciation, so that you aren't giving away the entire profit. For example, one time I purchased a home from a seller who wanted part of the appreciation, which at that time was 10 percent per year. I asked him how much he was expecting. He responded with 2 percent per year, which I felt was fair, and we settled on him receiving part of the appreciation and me receiving most of it. You can give away part of the profit and still make it a win-win.

When objections arise, put yourself in the seller's shoes and reflect on what they say. Always try to come up with creative solutions to keep the discussion going. Find out what their concern is, and if you can fix it, say, "If I could do that for you, would you do the deal this way?" Find the seller's key issues so that you know what terms are more flexible for them. Whenever you give up something, negotiate something back in return. With a seller, usually the first question they ask tells you the most important issue to them. If they mention two or three different issues, find out which is the most important.

Find the Seller's Sticking Point

Sellers will have something that means more to them than anything else. Find out what this is so that you can structure a deal that makes them happy while simultaneously meeting your requirements for

profitability. For instance, the price of the home may be more important to some sellers than when they will receive it. Other sellers might want a very specific monthly payment, but their overall price is negotiable. Work with each seller to understand what makes them tick, so that you can tailor an offer to suit them best.

Handling Rejection

When you make your proposals, sometimes the sellers will accept, and other times they will shake their head and walk away. It's best to soft-pedal their rejection with a comment such as, "Well, things might change for you, so please give me a call somewhere down the line if you're still interested." Many do come back to me that way. Sometimes people don't want to act today because it's not a win-win for them, but a few months down the road they're feeling much more motivated. Always handle all sellers graciously and be accessible. You never know when they will call back and say, "Okay, now we want to accept the proposal that you presented to us a while back."

Wendy's Tip

Time always increases motivation. Sometimes if it's not a win-win for the seller now, it may be in a month or two.

Overcoming Sellers' Objections

If you have properly built rapport and trust with the seller first, their objections should be minimal and can be handled confidently and easily. Too many seller objections usually means you have a seller who is not as motivated as you thought; however, they may just have questions that need to be answered. Learn to *love* objections. Objections are buying signals. The seller is indicating that they need more information before they can make a buying decision—in other words when they have objections, they *want* more information. I have gotten to the end of my presentation and the homeowner had no objec-

tions, and of course I didn't get the home. Obviously I either missed asking the correct question or I didn't pick up on the homeowner's hot button.

Once you have overcome any particular objection, it is part of your repertoire. I can't wait for that question to come up the next time.

One technique that I like to use is to feed their question back to them. Many times we think we understand the question when the intent was something else. For example, if a seller says, "Your offer isn't enough!" I reply, "My offer isn't enough?" and then look at them and don't say another word. What I'm trying to do is see if the question is a smoke screen or if there is another objection. It could be that my offer isn't enough money up front; it could be that my offer is for too many years. By feeding it back, I put the ball in their court and get more information, so that I can give them a correct answer and avoid bringing up another objection they hadn't thought of.

Wendy's Tidbit

Learn to *love* objections—they are buying signals!

There are, however, some common objections and questions that you need to be prepared to handle.

Lease Option Questions and Objections

Here are my recommendations on how to handle each of these objections and questions.

I Don't Want Tenants in My Home.

The number one objection for sellers who are doing FSBOs is that they don't want tenants in their home. They need to understand that future home buyers are people who want a home to take care of. Let the seller know that you understand their concern: "I want you to know that I really screen my tenants and they are hand-selected by me. I also am not going to put just any tenant into your

home. I am putting a future home buyer in your home. These types of tenants take better care of a home, because they are planning to purchase it."

What If You Don't Make My Mortgage Payment?

There are at least three ways you can answer this one. Use the one most comfortable, fitting, and true for your situation.

1. "I understand your concern. I have been in this business a long time and can give you references from other sellers like yourself, if that might make you more comfortable."
2. "I understand your concern. What would make you more comfortable and yet protect us both?"

   If they want to make their own mortgage payment and have you make your payments to them instead of to the bank, you need to protect yourself. They should provide proof to you of their payment, and/or you will want to have bank authorization to check this out yourself. This is a document signed by the seller along with all of the other contracts for the lease option. There should also be a signed agreement that if they don't pay on time, you would have the right to switch your payments from the seller to the mortgage company.
3. "I understand your concern. I could make your payments to the mortgage company and then mail the receipt to you. This way I am protected and so are you. Would this work for you?"

Why Won't You Put More Down in the Option?

Answer: "If I were to put a lot more down, I wouldn't be able to buy more homes, and I'd like to help more sellers and invest in more properties than just one. There's also more risk to me because I do not actually own it, so I don't want to put too much down."

What If You Don't Buy?

Reassure the seller that if the option doesn't get exercised, then the home reverts to the owner in equal or better condition. Also agree to give reasonable notice of 30 days.

What Happens If You Die?

Answer: "The contract has provisions that if I die or the seller dies, the contract still binds our heirs to continue on."

How Long Does It Take for You to Buy the Home?

Be honest. Because tenant-buyers may come and go before one settles in permanently, you need to give yourself time to close the deal, and 20 to 24 months is usually how long it takes for a deal to finalize. We hold the buyer's hand all the way, walk them through the mortgage process, and do everything we can to make the purchase occur. We are not, however, mortgage brokers and we offer no mortgage advice.

Why Do You Need X Years to Buy This Home?

Answer: I need time to find the right tenant-buyer and get them through the mortgage process. Approximately half of my tenants end up exercising. It's very important to have enough time to make it work, and with each new tenant it takes at least a year for them to clean up their credit to qualify for a mortgage."

How Do I Change the Insurance on the Purchase Agreement?

The seller can simply call their insurance agent and they will take care of it for them—it just has to be turned into a non–owner occupied insurance policy. This doesn't affect the rates much (if any) but it gives the seller the proper coverage. Be willing to do a three-way call with the seller and the seller's insurance agent to make sure they get the right coverage. They should also put you on as an additional insured, because you have an additional interest in the property. If you made improvements and then sold it to someone at a different price, you have to be covered for the amount of equity that you have built into that property. You should also be an additional insured on your tenant-buyer's policy so that you're covered if anything happens to the house before they buy it. As an additional insured, you also get notice if the policy ever lapses. If their insurance does run out, you have the right to go buy insurance and then bill the seller for it.

What Kind of People Are Going to Rent My Home?

"*The best kind*." Some sellers want to discriminate regarding the types of tenants that move in, but I have to tell them that by law I

can't discriminate. If discrimination issues are important to the seller, I tell them I'm not the right person to buy their home. On the other hand, I'm going to take care of their property and put someone qualified into their home.

What If the Tenants Trash My Home?

Naturally, this is a major concern to any seller. You can answer, "I can understand why this would be a concern to you, but I want to assure you that I really do screen my tenants carefully. I am putting not just any tenant in your home—I am putting a future home buyer in your home. But if anyone does any damage to your home, then I would take care of it. I am fully responsible for your home." If they need further assurance you can let them know that their home is also *your investment*, so you're looking out for it very carefully.

Can My Attorney Review the Contracts?

A simple answer here: "By all means. I recommend it!"

Can I List My Home with a Realtor Since You're Not Ready to Commit Yet?

"Absolutely, go ahead and list it, but please make sure you list my name as an exclusion, because if I do buy it during this time period, you don't want to pay a commission on me."

Can I Come Look at the Property During the Lease Period?

They can, and it says so in the contract, but they need to go through me to do it. They can't stop by unexpectedly or drop in on the tenants, because that would violate the tenants' rights. They need to call me to coordinate their visit.

Subject-To Questions and Objections

Potential sellers in a subject-to deal have their own set of objections.

This Isn't Enough Money!

This is typically the biggest objection for subject-to sellers. A great way to field this objection is to get a full understanding of the question and then do a cost analysis together. Get out a sheet of paper and give them the calculator. Hand them the comps and ask what the average sales

price of the house is. They will calculate it and give you the figure. Then ask them what commission a Realtor gets in their area. Deduct the commission, then ask them what repairs need to be done to the house (and the cost) to bring the property up to current market standards. Then deduct those costs. Ask how long they think it will take to sell the house and then how long before the house closes. Add up the mortgage payments for that period and deduct those. Then deduct all the closing costs. Try to get them to put down anything else that will reduce the value more and help them be more realistic also—for instance, what is their time worth? As they do this themselves on the calculator it becomes hard for them to then argue about the value of their home. You are now working on something as partners, not adversaries.

Why Should I Give You the Deed and Control of the Property When I'm Left on the Hook for the Mortgages?

This is a legitimate question and one I would certainly be asking if the roles were reversed. And it demonstrates why it is so important to build rapport with the seller and make them feel comfortable with what you are suggesting. Remember, this will not work for everyone. To answer this objection, you might want to offer references or testimonials from other sellers. Here is how my friend Lyle Reichenbach from Phoenix would reply to this question:

> *"I can understand your concern, and I would probably feel the same way if I were in your shoes. All I can tell you is this: The bank will not let me assume your mortgage, and in order for me to make a fair return on this deal, I can offer you $___. I'll be glad to buy it right now at the price I've quoted, but then how would you cover the difference to pay off your current loan? You are actually being very savvy and getting top dollar for the property by letting me take over your payments; we both save all the costs that we'd incur—commissions, closing costs, and so on—if I were to just buy it from you. The minute you okay this paperwork, I kick into owner mode. I will be doing everything possible to sell this house as quickly as I can, using my expertise. I've spent thousands of dollars on training to do this business, legally and morally. It would be futile for me to let this property go back to the bank just because I didn't make the payments."*

I Don't Want Tenants in My Home.

This would get the same answer as with the lease option seller.

I Must Get the Price I'm Asking or I'm Not Selling.

Probably one of the most common challenges is getting the seller from "La-La Land" to reality! Here are some ideas on how to overcome the price objection.

Sellers usually think rigidly about pricing—they have a specific figure in their head. They tend not to think outside the box. But if a deal is properly structured, with the right terms, I can afford to pay full asking price.

First we have to verify that their asking price is within true market value. I usually accomplish this one of two ways. The easiest is to provide comparable sales in their area; sometimes you may want to delete the most expensive one from the list and recalculate. I've found more often than not that the highest-priced houses in the neighborhood are usually in A+ condition, having had new carpet, paint, and so on *before* they sold. The second way is to get the seller to buy an appraisal, which they would ultimately need even if they were able to sell retail as a FSBO. If you have an appraiser that you usually work with, simply let him know that contrary to normal, this time you're looking for as low an appraisal as possible. I've never had a seller balk at using a price that was in writing from an appraiser as a set point for negotiations. Unfortunately, appraisals can be misleading and bumped up in value, especially when done directly for a refinance or for a home owner, so a bit of caution on this: An appraisal is not a true indication of value.

Your explanation to the seller might go something like this:

> *"I understand that you feel the property is worth $XXX, but let me show you what is happening right here in your neighborhood. This house at 123 Main Street is 1,480 square feet with a pool and it sold for $XXX; all the homes on this list are within a few blocks of your house. Remember, these prices are what houses have* sold *for, not what someone is trying to get for a property. Based on these comparables, the program has calculated your house to be worth $XXX. I could be generous and pay you the price you want, but in order for it to make sense for me, I must get the following terms."*

Then spell out the terms you require. Remind the seller of the risk you are taking in assuming responsibility for the property, making payments, and waiting to make your profit at some future time.

I Want to Have My Attorney Look Over This Agreement.

This is reasonably common, normally just a ploy by the seller to stall and not make a final decision. Ask if there is something they don't understand, and offer to go over it again to clarify it. Sometimes they want to just talk about it a little bit more and then they will sign the contract. Your goal is to get the seller to make a decision and get off ground zero.

I'm Thinking of Just Listing It with a Realtor.

This is usually another stalling tactic. You can reply: "If you would like to list your home with a Realtor, that is fine, but if you would like to sell it now, then you have a buyer here in your home and you won't have to pay any commission. This is going to save you $XXX." If they insist on listing it now, then make sure they put you as an "exclusion to the listing contract." This will keep the Realtor from getting any commission on the home if the seller ends up selling it to you. However, don't suggest this immediately, or the seller will see it as a risk-free trial offer to list it with a Realtor. Rather, the exclusion will be a last-ditch effort to save the seller a commission if they choose to list it with a Realtor anyway.

My friend Lyle specializes in subject-tos. He recommends the following to help:

At the onset, there are two critical things to do.

1. *When the seller answers the door, I confidently reach out with a handshake and say, "Hi, I'm Lyle, I'm the Buyer you've been praying for!"*
2. *Typically the seller will want to give you a tour of their house. I politely but firmly say, "I appreciate your kind offer, but after looking at so many houses through the years, I prefer to just wander through by myself. If I have any questions I'll ask them in a few minutes. In the meantime, please sit down and*

look through my Seller's Information Manual." This is my credibility kit. On the front is a full-color photo with a banner stating "It Is Finished" and a giant "SOLD!" sign stamped across the front cover.

Other Negotiation Points

Here are a few more things you can work with in negotiating your deal.

Seller Paying Part of Payment

Many times you will find it necessary to ask the seller to make some of the payment in order for the deal to make financial sense. Usually this happens when a seller has taken all or most of their equity out through a second mortgage. These normally have higher interest rates and therefore higher monthly payments. I've asked sellers to continue to pay that second mortgage for some predetermined time, until either I can get the property resold or appreciation catches up. Bear in mind that the seller has either done some debt consolidation or spent that money on other things; in other words, they have already spent their equity. I use a form of promissory note from the seller to try to influence them to continue the payments. Obviously once you solve a seller's dilemma, they can relax a little, and not all sellers will keep their word about making these payments on a house they no longer own. I've had a couple occasions where the seller did not make the payments as promised, but I kept the deal anyway because I was still in good shape. If you use the following approach, or something similar, it makes sense to the seller to continue these payments.

> *"I see you have two mortgages on the property. Why did you feel it necessary to take out a second mortgage and where was that money spent? Well, I can certainly empathize with you, but since you have already spent your equity for this reason, not only do you have no equity left, but in order for this deal to make financial sense to me, I'm going to need you to continue to pay only the second mortgage for the next two years.*

I'll take care of the first, but as you already know, there is no way I can rent the property for the amount needed to cover these two payments. I won't even have enough to pay any management fees. If you were in my shoes, would you want to take all this risk for a negative cash flow? If I were in your shoes, I would not like to have to do this either. But look at it this way: Isn't it going to be more financially feasible for you to pay just $244 per month instead of the whole $1,179 you are paying now? If you step in and do your part, I'm willing and able to help you by taking the other $935 burden off your back. Together we've created a win-win situation now, don't you agree?"

Seller Paying You to Take Over Payments

If there is not enough room for profit in the deal, there may be a time when the seller will need to give you a sum of money for you to take over the deed.

Length of Term

I usually make sure, and my paperwork spells out the same, that the term could conceivably last the entire length of the note—although in reality that will probably never happen. Most of the time you will have sold the home before the loan is paid off. Sometimes, however, the seller does not need it out of their name or there are other circumstances that require it to be paid off in the length of time more in line with a lease option.

The Point at Which the Agreement Locks In

This is a negotiable point. You can have the seller make several more payments until you take them over. If you don't feel you can or want to take the risk of carrying those payments until you find a tenant-buyer, then put this type of provision in the contract.

Understanding some of the many ways to approach lease option or subject-to negotiations will equip you to creatively solve the seller's problems. There are so many times when one area of negotiation is

very important to a seller, like sales price, that we forget to negotiate the rest of the deal. Investors tend to walk away based on price alone. Many times we can end up with the same bottom line by negotiating the rest of the terms with the seller, if we take the time to work out the details. It is up to you and the rapport you've built with the seller to make it all a win-win situation!

CHAPTER 7

Getting the Paperwork Ready for a Lease Option Deal

Now that you've found a motivated seller who is perfect for a lease option, you've determined the technique, you know the profitability, and you've negotiated the deal, you will need to get the paperwork ready to be signed by the seller. For a lease option deal there are several contracts and forms that need to be signed: there are also more steps that need to be taken to complete and organize the deal. I use a checklist so that I don't forget any step during the process and to ensure that all items are completed. A checklist is crucial when you are new at this or when you have many properties going at one time. With more experience you will know what needs to be done and likely not forget much, but when you are working on many properties at one time, there are things you can't keep straight in your head, things that may slip through the cracks. A checklist will help you keep things straight on each property.

I have a checklist form for each property and I review them every day, or every other day, to see what needs to be completed for any of my properties. A task gets added to my to-do list when it is the appropriate time to work on it, and it doesn't get checked off the list until it is completed.

Let's take a look at the checklist I use for lease options.

STEPS TO BUYING PROPERTIES

Buying on an Option—Checklist

Address:____________________________
Contact:____________________________
Phone: _____________________________
Projected starting date: ____________

1. Create owner folder for this home ____
2. Order pretitle work ____
3. Check IRS/state tax liens ____
4. Check if mortgage is up to date ____
5. Check if property taxes are paid ____
6. Draft all documents:
   a. Rental Agreement/Lease ____
   b. Offer to Purchase/Purchase Agreement ____
   c. Option Agreement ____
   d. Memorandum of Option ____
   e. Affidavit of Liens ____
   f. Bank Authorization ____
   g. Seller's Disclosure ____
   h. Lead-Based Paint ____
7. Get a key or access ____
8. Get an inspection ____
9. Advertise the home ____
10. Set up utilities ____
11. Water reading (if city water) ____
12. Water softener (if well/rental?) ____
13. Get insurance (liability) ____
14. Owner's proof of insurance—additional insured ____
15. Review title work ____
16. Sign all documents ____
17. Record Memorandum of Option ____
18. Set up automatic payments if paying mortgage payment ____
19. Maintenance/work to be completed (list work that needs to be done):

    ____

    ____

    ____

Using the Option Checklist

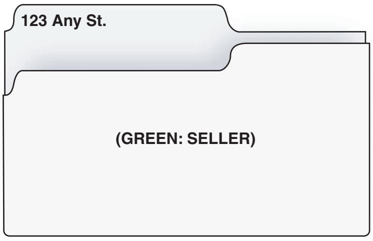
If you have several properties, keep them filed in order of which ones are projected to start first. I would focus my attention on these and would also advertise them more heavily.

Fill out the information at the top of the checklist: the address of the property, owner's name and phone numbers (how you will reach them—if there are several numbers, put them all down), and when the option is projected to start.

Now let's go through the items on the checklist.

Create Owner Folder for This Home

I use a left-tabbed green folder (think green for money!). I set up an owner folder for each property that I buy on an option, outright, subject-to, and so on. I use right-tabbed red folders when I sell on an option later, to hold all the tenant-buyer information. All contracts, memos, notes, surveys, title work, or anything regarding the home will go into this folder. This is strictly for the information that involves the seller and you—nothing concerning the tenant-buyer will go into this folder. (Note: The folder doesn't have to be green—just the tab part or the address.)



Order Pretitle Work

This can also be called a "commitment for title." It is not to be confused with title insurance. You normally cannot get title insurance on property you don't own, but you must do research to see what is on the title and if there are liens on the property. If you order this from a title company, it can take 7 to 10 days, maybe fewer if you have a relationship with the title company. You can also do it yourself if you are knowledgeable in your own state and county about what you need to

research and where to research. This is where you verify that the title is clear of judgments and liens.

Check not only the title liens but the state and IRS tax liens that might go against the person on title. If I go down to my county courthouse to research John Jones on 123 Anystreet, I might only find a mortgage on title, because IRS information is kept at a separate location. However, a title company will pull the information from all relevant sources to give you a complete picture. If there are liens other than the seller's mortgage, this would indicate the seller is not a good candidate for a lease option but rather a subject-to, because this would be considered bad debt on the property.

The title work will also show all owners of the property. It is very important that you purchase the property from *all* its owners. Sometimes I have looked at title work and seen "Joe and Sally" on the title when Joe had said he owned the property. Joe forgot to mention that he had divorced Sally. The problem with this situation is that Sally is still on the deed/title of the home. Sally either has to get off the title by deeding her interest to Joe or agree to all the terms of the lease option and sign the paperwork. Whoever is on the deed/title *must* sign. I also recommend that married people have their spouses sign the documents too. In many states a married man must have his wife sign the deed in order to transfer title, even if she is not on the title, because of her dower rights. However, I recommend that anyone who is married have their spouse sign the agreements.

Check IRS/State Tax Liens

Usually the pretitle work will show these liens, but if you are doing your own research make sure you check for both of these areas. Ask someone at the county office to help you confirm that the seller does not have any IRS or state tax liens against them.

Check If Mortgage is Up to Date

The best information source for the mortgage is the seller. Many mortgage companies will give their seller a statement each month to show what has been paid, what is still owed, and whether any payments are late. If the seller does not have a current account statement, they will have to order one. If taxes and insurance are escrowed in their monthly payment, then you will also know that those are cur-

rent—a mortgage company would not let those go unpaid or be delinquent. (An escrowed payment is a payment that includes the taxes and insurance as part of the monthly payment.)

Check If Property Taxes are Paid

You can call your local county or state building and get proof that taxes are paid. Find out in your state or area how to confirm that *all* property taxes are current on the home. Call your local city assessor's office and ask them about the home. In some states any back taxes might be paid by the county, and the city might not know whether the taxes are paid, so confirm with the assessor and possibly other real estate investors in your area as to how you will know if they are paid up to date. You can also ask the seller to provide proof by showing you a recently paid tax bill: however, that won't mean that a tax bill from two years ago was paid. Find out and protect yourself.

Draft All the Documents

To make a lease option work, three main agreements are needed. It is possible to roll all three into one or two contracts, but I like to keep them separate to make it clean and clear. It is especially important to keep them separate when you sell on an option (see Chapter 13).

1. *The Option Agreement*. On the selling side, the option agreement turns control of the property over to the optionee without ownership. When I am doing a lease option, I sign an option with the seller and they give me control for a specified amount of time (usually 2 to 5 years), during which I will be trying to secure a tenant-buyer for their home.

2. *The Rental Agreement*. The rental agreement specifies how long I will rent their home and how much I will pay them each month for the rental. The rental payment will always go first to their mortgage company, if any mortgage is due on the home, and then to the owner if any rent is remaining. For example, if my rent is $1,200 per month and the mortgage payment is $1,300, the mortgage company will get $1,200 from me and $100 from the owner. If the mortgage payment is $1,200 then the mortgage company will get one check from me for $1,200. If the mortgage payment is $1,100 then I

will write one check to the mortgage company for $1,100 and one to the seller for $100. The check to the mortgage company must have the mortgage account number on it so that it gets applied to the correct mortgage. (The owner could have two mortgages with the same mortgage company.) Protect this mortgage and make sure that it is getting paid.

3. *The Purchase Agreement.* This agreement sets the terms of the final sale. Again, there are two of these—one for my deal with the seller, and one for my deal with the tenant-buyer. The deal with the seller has a set sale price, which remains constant regardless of appreciation or even depreciation. However, it is always negotiable up front. For example, you could agree that the price is $150,000 if purchased within two years and $155,000 if purchased between years two and five.

There are five other forms that the seller will need to sign.

1. *Memorandum of Option*. This is the document that gets recorded against the title of the property. It does two things. First, it gives the world notice that you have an interest in the property by "clouding" the title. When you cloud a title, the seller can't refinance or sell the home to someone else and give clear title. A reputable title insurance company would not insure it with this memorandum on the title. This document protects your interest in the property and it is *very* important that it gets recorded. Having it signed and notarized does you no good—recording it is a necessary step.

Secondly, it seasons the title. *Seasoning* is a term that is becoming more and more important to real estate investors. Mortgage underwriters are becoming very strict about the length of time investors or sellers must have owned properties before selling them. There has been so much mortgage fraud in the past few years that the mortgage industry is really cracking down on this, and one way to do it is to make sure that the seller of a home has owned it in their name for 90, 120, even 360 days. Each lender has their own requirements for the number of days to season a title of a property. This is important to be aware of in a lease option strategy, as a lease option is not ownership. You will be selling a home later that you did not own, except for maybe one hour or so. This may be a problem for some lenders, but for most, filing the Memorandum of Option will season the title adequately for them. As I write this book, FHA is the only lender that I know of that will not approve a Memorandum of Option as seasoning. These guidelines and rules are changing constantly, and something you should check into. (The real estate investing world hadn't heard of the word *seasoning* when I started in 1985.)

2. *Affidavit of Liens*. This is a sworn statement, signed by the seller, that discloses all of the liens on the home. It also asks about liens that are not yet recorded but known about; for example, if the roof was replaced last month but the roofer has not been paid yet, this could become a lien. The seller must disclose it or be guilty of fraud.

3. *Bank Authorization*. This document gives you authorization to get information about the mortgage. You can find out at any time the status of the mortgage, balance, payment history, payoff amount, and so on. It gives you authority to find out information from the mortgage company as if it was your own mortgage. Because all payments made in the future should be made directly to the mortgage company and not to the seller, you will want access to the seller's mortgage information. This will protect you from having this home go into foreclosure.

4. *Seller's Disclosure*. This is a statement the seller fills out that discloses the condition of the home. The seller must disclose any problems with the home. Each state has different Seller's Disclosure statements. Ask a local Realtor for a blank Seller's Disclosure statement for your state.

5. *Lead-Based Paint Disclosure*. This disclosure is a federal requirement in the sale or rental of any home. Prior to 1978, lead was a component of paint products used in residential homes. Lead poisoning has caused many problems for people, but primarily permanent damage to children. Therefore the Department of Housing and Urban Development (HUD) passed a law requiring sellers and landlords to have the lead-based paint disclosure signed and to give the pamphlet called "Protect Your Family from Lead in Your Home" to all potential buyers and tenants. If this step is not completed, the fines are significant. Also, if lead-based paint is present in your home and you don't do this step, you can be sued if a child is later found to have suffered brain damage from your negligence. Some states require that you completely remove lead-based paint from your rental homes. Check out your state's lead abatement requirements. You may want to avoid those homes or confirm it has been completed prior to your taking it over.

Get a Key to the Home

Make sure that you have a key or accessibility to the home. If the home is listed through a Realtor, you may be able to get the lockbox combination and have access to show the home anytime, if it is vacant. If the seller is still living in the home, which is often the case for me, I make sure that I either have the ability to call the seller and make an appointment for a showing or that the seller gives me a key and I give them a courtesy call to let them know when I am going to be showing it. If the seller gives you a key, consider keeping it in a lockbox at the house. You can purchase one at most hardware stores.

Advertise the Home

Get the home advertised as soon as you know it has passed your inspection, or even before. You want the period of vacancy to be minimal. Advertise it in the newspaper, with local employers, on a web site, etc. Advertise anywhere you can find a buyer. (See Chapter 12 for more detailed tips on advertising.)

Set Up the Utilities

Do this when you are about to take possession of the property. For example, if it's April 28 and I'm taking the property on May 1, I will go

ahead and turn on the utilities in my name (electricity, water, gas, etc.). Turn on anything that is required to be in your name and out of the seller's name. Be especially careful about winter months in cold parts of the country—you don't want any days to go by without heat. I have discovered ice skating rinks in a few of my homes over the years, because the heat was not turned on.

Water Reading

In some cities and municipalities, a water bill can be a lien against the home if not paid, so get a final reading to make sure it's current and paid from the day that you take possession from the seller. Also, have the water bill mailed directly to you. This way you can either pay it and bill the tenant, or forward the bill to the tenant and know that it is getting paid.

Water Softener

If there is a water softener on the property, make sure you are taking care of it. If it's a rental softener unit, change that contract over to your name. I have a water softener company that I work with, and I will set up a lease to own on the softener equipment. The tenant actually pays the bill, and if they end up not exercising, at the end of their lease the water softener belongs to me. Having a water softener is critical if you have hard water. Most properties with city water will not need a water softener.

Get Liability Insurance

Since you don't own the home, you can't actually insure it. However, you have a liability issue just by being the landlord of the home. As far as the tenant is concerned, you are the landlord, and as far as the owner is concerned, you are the tenant. So you have both tenant and landlord roles without even owning the property. I recommend purchasing some type of commercial general liability policy that would cover you for properties you don't own. This is not going to be a make or break on your first deal or two if you do step 14 on the checklist, but it's something you should consider if you're going to stay in this business. Talk to an insurance agent to get educated, but

do get several opinions and quotes. Some will try to sell you more insurance than you need.

Owner's Proof of Insurance

Make sure the owner has insurance on the home itself. If they have a mortgage, the mortgage company will require it, but if they own it free and clear they may not have insurance. Also make sure that on the insurance policy they name you as an additional insured. Some insurance companies will not want to put you on their policy without you being an actual lien holder (like a mortgage holder—see the "Performance Mortgage" section in Chapter 9 for a way to accomplish this). My rental agreement and my offer to purchase require my owner to list me as an additional insured on their homeowner's policy. They might have to switch insurance companies to find a company that will do this. There are several benefits of being an additional insured: (1) You get liability protection; (2) you should get notified if the seller cancels their insurance policy for any reason, even nonpayment; and (3) you probably will be on any settlement check if the home burns down or any other disaster occurs. Being an additional insured is a great thing, but it should not usually be a deal breaker.

Review the Title Work When It Comes Back

Check for liens and for ownership; make sure the title is clean and clear. You want no surprises. Do understand, however, that some things can show up on the title work in error. I have had several titles show up with old mortgages on them, where it appears that the owner has two mortgages. Don't assume the owner is hiding something from you—ask them about the mortgages showing up on the title work. Many times the owner had refinanced the home and the old mortgage didn't get discharged properly. Don't be alarmed, just get the old one cleared up. The title company can help you with all of this.

Make Sure All Documents Are Signed by the Seller and by You

Have two complete, signed sets: one for them and one for you.

Wendy's Tip

I always recommend having a witness when you are signing a document, but a witness is not necessary to make it valid. Only the Memorandum of Option needs to be notarized so that it can be recorded.

Record the Memorandum of Option

This is usually done at the county building. Once you are certain that you are going to move forward with the deal, if you've got a start date coming up or if you've got a buyer for the property, then you want to record the Memorandum of Option. This will get recorded against the title. It then shows the world that you have a claim against the property and that you have the right to buy it on an option.

Wendy's Tip

Make certain that you leave a 2.5-inch blank margin at the top of your Memorandum of Option or it will not be able to be recorded. Check your state/county recording requirements prior to completion of this form.

Set Up the Payments with the Seller

You can set up an automatic payment with the mortgage company that goes directly out of your bank account. I use Quickbooks for mine. This eliminates the risk of forgetting to write the checks out in a timely fashion.

A List of Maintenance or Work to Be Completed before I Take Possession

This is a list that either you or the seller are responsible for, depending on what deal you have made with the seller—things like replacing linoleum, repainting trim, replacing the mailbox. All repairs are to be done by my contractors (so I can control the quality) unless otherwise

Memorandum of Lease Option

Optionor, whose address is____________________, and "Optionee" (your company name or personal name), whose address is________________, entered into an option "the Option" dated as of________________, pursuant to which Optionor has agreed to option to Optionee the right to purchase certain real property "the Property" located in the ___________ of ____________ , County of ____________, State of _____________, more particularly described as (insert legal description here—this is needed to record the home).

The Option requires that Optionee shall exercise the Option on, or before, ______________, or the Option shall expire. While the Option is in effect, Optionor many not assign, convey, lease, sell, transfer, mortgage, or otherwise encumber the Property or any part thereof, nor shall Optionor do, suffer, or permit any act, deed, or omission which might diminish or encumber the rights of Optionee or the ability of Optionor to perform obligations in accordance with the terms of Option.

IN WITNESS WHEREOF, the Parties have executed this Memorandum of Option on __________________________.

Optionor:

____

____

Optionee:
(Your company name here)
A (your state name) Limited Liability Company

____

Its Member:

____

Its Member:

____

State of ______________

County of ____________

The foregoing Instrument was acknowledged before me on this _______ day of ____________, 20_____, by ______________________ and __________________.

____

Notary Public, ______ Your county & state
My commission expires: _______________

State of ______________
County of ____________

The foregoing Instrument was acknowledged before me on this _______ day of ____________, 20_____, by ______________________ and _________________.

____
Notary Public, ______ Your county & state
My commission expires: _______________

Drafted by:
(Your name and address)

When recorded return to:
(Your name and address)

specified. All repairs, both major and minor, are the responsibility of the tenant except during the first 60 days of the agreement—I leave that responsibility to the owner. For instance, if the furnace went out two days after I took possession, I don't want to be responsible for that. Everything is negotiable, and while 60 days is my standard, it's completely flexible. You can make it longer; you can also make the seller responsible for all repairs, for anything over $500, for anything under $500, for nothing at all—structure it the way you want it.

Wendy's Tip

When juggling the receiving of the rent from the tenant and the payment of the mortgage to the owner, you might want to stagger them a few days to give the tenant's payment time to clear before you make a payment to the owner.

Some of My Favorite Clauses

Each state may require certain information for your rental agreements and purchase agreements. I offer contracts on my web site that are generic and can be used in all states, but these should always be

checked by a local attorney, because each state has its own unique laws. Attorneys can be very expensive. I use Pre-Paid Legal services, which offers plans starting at very reasonable monthly rates to give you legal assistance. I have been a customer since 1998 and have saved thousands of dollars as I obtained help on legal questions, contract reviews, letters, and so on for real estate matters in multiple states. You can find out more at www.prepaidlegal.com/hub/wendypatton. Each state has their own rules and regulations regarding rentals, lead-based paint abatement, evictions, and so on, so some of the following clauses may not apply to your situation, depending also on what you have negotiated with your seller. These are just some examples of things I have used with my sellers, some of the clauses that have been my favorites over the years in my contracts to buy on lease options:

The Option Agreement

- There shall be an additional option consideration of $_____ per month given by Optionor to Optionee as credit towards purchasing the home.
- Optionee has the right to multiple-list, advertise, or resale this property before or during the option period.
- Should the property become uninhabitable at any point during the lease period, the tenant will be released from all rent liabilities until the property is habitable and is re-let. The period of time that the home is uninhabitable will be added to the Option Agreement and attached Rental Agreement and Offer to Purchase.

The Rental Agreement (Lease)

- Tenant will have access to the home on ____ to show the property to prospective tenant-buyers and contractors.
- Tenant will be assigning this agreement to another party, but is still responsible to the owner per this agreement.
- The owner gives the tenant the right to make repairs/improvements to the property at the tenant's expense. All repairs and improvements will be done with the tenant's contractors.

- Landlord agrees to use their homeowner's insurance to cover any items/repairs/damage that would be covered under their policy (i.e., storm damage, fire, etc.) since tenant can't utilize their insurance for these type of repairs.

The Purchase Agreement (Offer to Purchase)

- Purchaser will put $_____ down on this property. Check will be written directly to (realty company of listing office) upon execution of the attached rental agreement. This amount will be applied directly to the purchase price at closing, and to any listing commission owing. The remaining commission, if any, will be paid at closing out of seller's proceeds to the appropriate offices.
- Seller agrees to change their homeowner's insurance policy to a non–owner occupied policy and to name the purchaser as an additional insured within three days of purchaser taking possession of the home.

The paperwork is vital to your successful ability to make a lease option deal, so don't skip any steps, and make sure all areas of the checklist are covered. You will add your own favorite steps and clauses over the years as you do lease options and learn new ideas.

CHAPTER 8

Getting the Paperwork Ready for a Subject-To Deal

The contracts and forms for a subject-to are different from those for a lease option. Again, I use a checklist so that I don't forget any step during the process and I make sure that all items are completed. You should have a separate checklist for each subject-to property.

Buying on a Subject-To—Checklist

Address: ______
Contact: ______
Phone: ______
Mortgage company name: ______
Mortgage company phone: ______
First mortgage $ ______
Loan # ______
Mortgage company name—second: ______
Mortgage company phone: ______
Second mortgage $ ______
Loan # ______
Projected starting date: ______

1. Create owner folder for this home ____
2. Order pretitle work ____
3. Check IRS/state tax liens ____
4. Check status of mortgage(s) ____
5. Check if property taxes are paid ____
6. Draft all documents:
   a. Offer to Purchase/Purchase Agreement ____
   b. Warranty Deed ____
   c. Seller's Acknowledgments ____
   d. Affidavit of Liens ____
   e. Bill of Sale ____
   f. Escrow Payoff ____
   g. Notice to Insurance Company ____
   h. Limited Power of Attorney ____
   i. Notice to Mortgage Company ____
   j. Bank Authorization ____
   k. Seller's Disclosure ____
   l. Lead-Based Paint ____
7. Get a key or access ____
8. Set up my insurance policy ____
9. Review title work ____
10. Get an inspection ____
11. Advertise the home ____
12. Set up utilities ____
13. Water reading (if city water) ____
14. Water softener (if well/rental?) ____
15. Sign all documents ____
16. Record deed or land trust ____
17. Bring mortgage(s) current ____
18. Set up automatic payments if paying mortgage payment ____
19. Maintenance/work to be completed (list work that needs to be done):

______

______

______

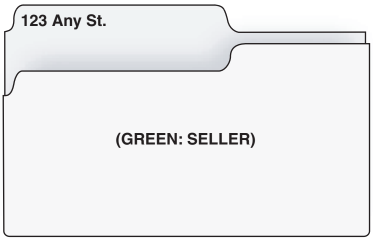
Using the Subject-To Checklist

If you have several properties, keep them filed in order of which ones are projected to close with the owner first (which ones have money owed to the bank first). These are the ones where I would focus my attentions first. I would also advertise them more heavily.

Fill out the information at the top of the checklist: The address of the property, current owner's name and phone numbers (how you will reach them—if there are multiple numbers, put them all down), when you are projected to start the subject-to, and all of the lender information. There might be two mortgage companies, and you will want to put all information down on each of them; contact numbers, loan balance, and loan/account numbers.

Create Owner Folder for This Home

This is a green folder, in contrast to the red tenant's folder.



Order Pretitle Work

This can also be called a "commitment for title," but it is not to be confused with title insurance. You probably won't be able to get title insurance on property that has a loan on it (there are a few companies that will give you title insurance subject to the current mortgages, so do shop around). You may need to rush this title work if you are doing this deal quickly. If you order it from a title company, it can take 7–10 days, maybe less if you have a relationship with a title company. You can also do it yourself if you are knowledgeable in your own state and county about what to research and where. Refer to the corresponding section in Chapter 7 for more information on pretitle work.

Check IRS/State Tax Liens

As stated in Chapter 7, usually the pretitle work will show these liens, but if you are doing your own research, ask for help in checking both of these areas to help confirm that the seller does not have any IRS or state tax liens against them.

Check Status of the Mortgage(s)

Require that the seller get proof from their mortgage companies concerning the status of the mortgages. Don't go by their word—get it in writing or on the phone directly from the companies. You will want to know exactly how much they are behind, if at all. Some sellers are not behind at all on a subject-to or have only one mortgage, but you want to make sure. Confirm all the information they give you. A recent mortgage payment statement might show the exact information, but some mortgage companies don't mail out statements. Because you will be the owner on a subject-to once the seller signs over everything, if you missed something in these steps you will be stuck with it later.

Check If Property Taxes Are Paid

You will want to confirm exactly where the taxes stand on a subject-to deal. Sometimes you will be taking over back taxes, and sometimes there are none due. You need to know the exact numbers so you know your bottom-line profit and out-of-pocket expenses.

Draft All Documents

1. *Offer to Purchase/Purchase Agreement.* As in Chapter 7, this is a full contract describing the terms of the purchase.
2. *Warranty Deed.* This puts your name on the title to the home.
3. *Seller's Acknowledgment.* With this document the seller acknowledges important things about the sale of their home. This way they can't come back later and say they didn't understand what they were doing or didn't realize they were really deeding their home to the investor.

4. *Letter for Due on Sale Clause.* This informs the seller that their home still may be called due, that the investor is not guaranteeing they will pay the loan off in full, and that the owner accepts this risk in selling their home subject-to.
5. *Affidavit of Liens.* This is a sworn statement in which the seller discloses all of the liens on the home, whether recorded or unrecorded.
6. *Bill of Sale.* This document lists all of the personal property to be included in the sale, such as appliances, window coverings, and anything else you want to ask the seller to include in the sale of the home.
7. *Escrow Payoff.* This document authorizes the bank or mortgage company to give you, the investor, any money remaining in the escrow account when the mortgage is paid off. Without this document, the mortgage company will pay the seller any proceeds left after a mortgage payoff because their name is on the mortgage even if it is not on the deed.
8. *Notice to Insurance Company.* This informs them of the land trust or other transfer.
9. *Limited Power of Attorney.* This gives the investor power to act on the owner's behalf as it pertains to the home in question, but it does not give the investor power to act on the owner's behalf on any other matters. An example of this document is shown in Chapter 9.
10. *Notice to Mortgage Company.* This informs them of the transfer of ownership of the home, if you are telling them outright. If not, you will still want to notify them of a change in address for mailing of mortgage payments, year-end interest, and so on.
11. *Bank Authorization.* This document gives you the right to call the bank or mortgage company and get any information on the mortgage, including loan balance, loan history, payoff information, payoff request, escrow balance, and the like.
12. *Seller's Disclosure*—described in Chapter 7.
13. *Lead-Based Paint Disclosure*—described in Chapter 7.

Get a Key or Access

This is described in Chapter 7; it works the same in a subject-to as in a lease option.

Set Up Your Insurance Policy

There must be an insurance policy on the home that matches the owner's name, and you are the new owner. This is for your protection and is also a mortgage requirement. If you can have the seller's policy changed to your name, that would be the best; however, you might need to purchase a new insurance policy.

Review Title Work

Make sure the title work shows the owner of record and the liens that you expected.

Get an Inspection

Just like with a lease option or any other real estate purchase, you should complete a home inspection. Make your offer to purchase contingent upon a good home inspection. This will allow you to get out of the deal if you find too many things wrong with the home or something that would be too expensive to fix. You can always go back and renegotiate if you find something wrong, but not if you don't have this clause in your contract.

Advertise the Home

Once you think this home is going to be purchased on a subject-to, start to get it ready for a lease option to sell. Put the ad in the paper to get it rented to a tenant-buyer.

Set Up Utilities

Set up all utilities when the seller is out of the home. Make sure you know what utilities are used there—gas, oil, propane, electricity, what trash removal company, and so on.

Water Reading

Make sure you do a water reading (ask the city if they do it or if you have to do it) and check to make sure the water bill has been paid. In

many parts of the country, the water bill can become a lien on a home. You might not even know it is a lien until months after the seller has moved out of town.

Water Softener

If there is a rental water softener unit, make sure the rental payments are current. If the seller owns it, make sure it is part of the Offer to Purchase and listed with all of the other appliances in the home.

Sign All Documents

Get all documents signed. The Limited Power of Attorney and the Warranty Deed will need to be notarized. The rest should be witnessed. It would be best to do them all at one time.

Record Warranty Deed

You will record the deed, usually with the county registry of deeds or clerk's office. You will record it when everything is signed and all of your due diligence is completed and all of your other contingencies have been satisfied.

Bring Mortgage(s) Current

Once the documents are signed and the land trust is recorded, then you should bring the mortgage current, if necessary. If the seller is in pre-foreclosure, get the funds wired to the lender immediately. If they are just a month behind, you can send the payment by ordinary mail. Just make sure your check clears and you get a receipt and proof of the payment on the next statement.

Set Up Automatic Payments If Paying the Mortgage Payment

Do something to make sure you don't forget to make those payments on time each month. I set mine up in Quickbooks to be paid at the beginning of the month.

Maintenance/Work to Be Completed

Make a list of repairs and other work that needs to be done on the property.

Some of My Favorite Clauses

Seller's Acknowledgments

- We may be selling the property below market value, but because of our personal circumstances and the immediate need to sell, we are satisfied with the price that we have negotiated.
- We understand this sales contract is final and binding upon all parties. We are bound by the conditions and terms described in the attached offer to purchase.
- We understand that the purchaser is a real estate investor and intends to resell the property at some future date and expects to make a profit.
- We are not signing this contract under duress and have signed this agreement of our own free will, without undue financial pressure. The buyer has in no way pressured us into signing the agreement.

John Hyre, a tax attorney, is involved in many real estate transactions. He uses the following form for his subject-to deals.

Summary of Our Deal

- *You are selling me your house. It is mine now.*
- *The mortgage to the house is staying in your name and on your credit report.*
- *I do not intend to refinance the mortgage, though I may one day choose to do so.*
- *If the bank calls the loan due, as is its right, I will not refinance the loan. As such, the bank could foreclose on the property if it calls the loan due. That would hurt your credit.*
- *I will make the payments on your mortgage in full, on time, every time. That is the payment that I am giving you for the home.*
- *I will pay arrearages on the mortgage in the amount of $____________.*

- *I will also put $______ of repairs into the house to make it rentable or saleable.*
- *This deal is FINAL. You do not get the house back. The loan stays in your name until such time as I should see fit to pay it off at my sole discretion. You will NOT contact any tenants to whom I rent the house.*
- *The benefits to you:*
  - *A bad house that is going to foreclosure/costing you money/ruining your credit will be off of your hands. The financial bleeding stops right now.*
  - *Your credit will be helped over time by my on-time payments.*
- *The risks to you:*
  - *The loan could be called due by the bank and foreclosed upon.*
  - *The presence of the loan on your credit report could limit your ability to take out future loans.*
- *The benefits to me:*
  - *Like you, I expect to be paid for my work. I intend to profit by selling or renting the house. I have purchased it at a favorable price and/or on favorable terms to make a profit.*
  - *The loan stays in your name, so I do not need to get one in my name, pay closing costs, etc.*
- *The risks to me:*
  - *Tenants could trash the house, in which case I'd have to pay for repairs.*
  - *Tenants could skip out or the house could sit empty, but I still need to make the payments on your loan.*
  - *The house could sell or rent for less than I'd planned, but I'm still on the hook for the payments I promised to make.*

- *The bank could call the loan due and I could then lose whatever I put into the house.*
- *The repairs could cost more than I'd planned.*

The paperwork is vital to your successful ability to make a subject-to deal work smoothly, so don't skip any steps. Make sure all areas of the checklist are covered. You will add your own favorites through your own experiences with subject-tos as you learn new ideas and master the concepts.

CHAPTER 9

Advanced Concepts and Strategies for Buying on Lease Options and Subject-Tos

While I have suggested strategies that you should start with, there are more advanced lease option and subject-to strategies available to help you build your portfolio. These are things I have learned from other students, national speakers, and my own experience. You can succeed with just the basic concepts, but these topics will broaden your capabilities and elevate your business. The strategies shared in this chapter include additional ways to protect yourself and additional methods to increase your profitability on each deal.

Remember that all of your strategies must be negotiated before any paperwork is signed. You will need to determine which, if any, of these strategies make sense for each individual situation. Some of these techniques may be viewed by certain sellers as intimidating or overly complex. Therefore you will need to know your seller and understand them by building the relationship, as discussed in Chapter 6.

Extra Ways to Protect Yourself in a Lease Option

As a lease option holder you are dependent upon the good faith performance of the seller who holds title to the property. In Chapter 7 we

discussed protecting yourself by filing a Memorandum of Option. In this section I discuss some additional techniques to protect yourself and strengthen your position.

Place a Deed in Escrow

This approach can be used along with the filing of a Memorandum of Option. The seller would actually sign the deed at the same time that they sign all of the lease option contracts. However, the deed is not yet recorded on the title. Instead it is held in escrow by an attorney or title company with instructions for its release. While this approach does not protect the title against the potential filing of liens, it tends to give sellers the feeling that they have deeded, or sold, their property, so they are much less likely to try to back out later on their lease option agreement. It can also allow the investor to close on the home without the seller being present.

The instructions included with the deed in escrow specify how and when the deed can be released and recorded. For example: "When Wendy Patton pays $155,000 in certified funds to Joe Smith, this deed can be released to her. These funds must be paid by (date)."

Performance Mortgage

This device would replace the filing of a Memorandum of Option. A performance mortgage strengthens your ability to ensure performance by the seller by having the seller pledge the property as collateral for the lease option agreement. It is recorded at the time the lease option agreement is made. Signing a mortgage to you protects you against them selling to anyone else.

Like the Memorandum, it allows their insurance company to put you on the owner's policy as an additional insured, and it shows you as a lien holder for any type of foreclosure so you should be notified of any proceedings.

While this is a good concept that strengthens your position, many sellers find signing it objectionable, so you may not be able to use it in every case.

You'll want the specific terminology to be reviewed by a local

real estate attorney, but here are some of the key performance mortgage clauses:

- This indenture, made this ___________ day of (month), (year) between the Mortgagor (name of optionor), and the Mortgagee, (name of optionee), whose mailing address is: . . . .
- Whereas, the said Mortgagor has executed a certain Option Contract agreement dated ____________ under which Mortgagor is obligated to the said Mortgagee to deliver fee simple and clear marketable title to that certain parcel of real estate, legally described below, which obligation is attached hereto and by reference herein made a part hereof. . . .
- To secure to the Mortgagee the compliance and performance of the Mortgagor in meeting both the letter and the spirit of the agreement evidenced by said Option Contract, (name of optionor) does hereby mortgage, grant and convey to Mortgagee the following described land, situate, lying and being in the County of _________, State of _________, more particularly described as (legal description). . . .
- Provided that if Mortgagor, heirs, legal representatives, or assigns, shall with the agreement evidenced by said Option Contract, dated ____________, perform and abide by each of the agreements and conditions of said Option Contract and of this mortgage, and shall duly pay all taxes, costs, and expenses, including reasonable attorney's fees, which the Mortgagee may incur in enforcing the Option Contract secured by this mortgage, then this mortgage and the estate hereby created shall cease and become null and void and the Mortgagee shall deliver to the Mortgagor an executed satisfaction of this Mortgage in recordable form.
- Mortgagor shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, and any other hazards, including floods or flooding.
- Unless Mortgagee and Mortgagor otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the property damaged. If the restoration or repair is not economically feasible or Mortgagee's security would be lessened,

the insurance proceeds shall be applied to the sums secured by this Security Instrument with any excess paid to Mortgagor.

- The proceeds of any award or claim for damages, in connection with any condemnation or other taking of any part of the property, or for conveyance in lieu of condemnation, are hereby assigned and shall be paid to Mortgagee.

Extra Ways to Protect Yourself in a Subject-To

Chapter 8 suggested several ways of protecting yourself in a subject-to deal, but there is another useful technique to consider: a land trust.

Land Trust

This device is used to minimize potential exposure to litigation by hiding true ownership. The actual owner or beneficiary of the trust is not recorded. Only the name of the trust is recorded in public property records. Thus, the extent of the beneficiary's property holdings is not apparent and not a magnet to potential litigants. While the document is somewhat lengthy, I've listed some key clauses of the trust agreement here:

- This agreement and declaration of trust is made and entered into this (date) by and between (beneficiary name(s)) as Grantors and Beneficiaries (hereinafter referred to as the "Beneficiaries," whether one or more, which designation shall include all successors in interest of any Beneficiary), and (trustee name(s)), whose address is _______________ (hereinafter referred to as the "Trustee," which designation shall include all successor trustees).
- The Beneficiaries are about to convey or cause to be conveyed to the Trustee by deed, absolute in form, the property described in the attached Exhibit A, which said property shall be held by the Trustee, in trust, for the following uses and purposes, under the terms of this Agreement and shall be hereinafter referred to as the "Trust Property."

- The persons named in the attached Exhibit B are the Beneficiaries of this Trust and, as such, shall be entitled to all of the earnings, avails, and proceeds of the Trust Property according to their interests set opposite their respective names.
- The interests of the Beneficiaries shall consist solely of the following rights respecting the Trust Property:
  - The right to direct the Trustee to convey or otherwise deal with the title.
  - The right to manage and control the Trust Property.
  - The right to receive the proceeds from the rental, sale, mortgage, or other disposition of the Trust Property.
- The foregoing rights shall be deemed to be personal property and may be assigned and otherwise transferred as such. No Beneficiary shall have any legal or equitable right, title, or interest, as realty, in or to any real estate held in trust under this Agreement, or the right to require partition of that real estate, but shall have only the rights as set out above, and the death of a Beneficiary shall not terminate this Trust or in any manner affect the powers of the Trustee.
- The interest of a Beneficiary, or any part of that interest, may be transferred only by a written assignment and delivered to the Trustee.
- Powers of Trustee including:

  With the consent of the Beneficiary, the Trustee shall have the authority to hold the legal title to all of the Trust Property, and shall have the exclusive management and control of the property as if he were the absolute owner thereof, and the Trustee is hereby given full power to do all things and perform all acts which in his judgment are necessary and proper for the protection of the Trust Property and for the interest of the Beneficiaries in the property of the Trust, subject to the restrictions, terms, and conditions herein set forth.
- This trust may be terminated at any time by the Beneficiaries, and with thirty (30) days written notice of termination delivered to the Trustee, the Trustee shall execute any and all documents necessary to vest fee simple marketable title to any and all Trust Property in Beneficiaries.

The trust document further defines the duties, compensation, liabilities, and other dealings with the Trustee. The document is then signed, witnessed, and notarized.

Additional Creative Ideas and Strategies

Here are some other strategies I have found useful. No doubt you will discover more as you gain experience using lease options and subject-tos.

Nursing Homes

It may sound morbid to you, but consider this in the states where older people can keep their home and be on Medicaid, but can't keep much money. If the person on Medicaid were to sell their home, Medicaid would take the proceeds; however, if they keep their home until they pass away, then their estate can keep the proceeds from the home. This may change in the future in many states, but some states still allow older people on Medicaid to keep their homes when they have moved into nursing homes. If the person can keep their home, this is a good possibility for a lease option on the seller side, but on the tenant side it can be no more than a rental situation since the owner is still living. In other words, you could not actually sell it to a tenant-buyer, you could only rent it until the owner passed away. In this case, your option agreement might be based on the death of the person.

This is a great way to make cash flow in the meantime, because the owner actually would not get to keep rental proceeds either—that would also go to the state. Therefore, you may also be able to negotiate a great rental rate, as it does not really affect the owner. The owner is happy, the renter is happy, and you're happy with the cash flow. Someday you will be able to buy this home, and it could appreciate significantly during this time period. The estate does not have to pay utilities or maintenance during all those years while their loved one is in the nursing home. Those responsibilities can be a huge financial and emotional stress on some families. The freedom of not

having to worry about the monthly expenses and yearly taxes can be an immense relief for many families in this situation. They will still get the money from the sale after the death of the loved one, but without you, they might have to sell the home because they can't afford to keep it. This can truly be a win-win.

Limited Power of Attorney

In many states the transfer fees (the costs to record a deed) are extremely high, and doing a simultaneous closing (discussed in Chapter 15) becomes expensive. In some states the fees can be as high as 3 percent of the sale price of the home. On a home priced at $400,000 this would take an extra $12,000 in profit right off the top of each deal for investors in those states. There are two ways around this.

1. You can have the seller sign a new purchase agreement with your buyer for a higher amount, and you pay the difference in fees for what you paid the seller versus what you sold it for to your buyer. For example, if you paid $350,000 to the seller and you sold it for $400,000, you would have the seller sign a new contract with your tenant-buyer for the $400,000 and you would pay the extra costs on the $50,000 increase in price. This is fine if you don't mind and the seller doesn't mind the entire deal being laid out in front of them. Sometimes it is no big deal, other times it causes bad feelings. The seller already knew you were making a profit, but to put it in front of their faces can diminish their joy in the deal that once was a win-win for them. You can also offer to give them a little bonus with this. For instance, let's say they were going to receive $95,000 in cash at closing. If they sign this document, now you will give them $96,000 at closing. It now becomes more of a win-win. They get more money and so do you. You only pay $1,000 for the first $250,000 in closing costs and then your state's transfer fees and title insurance fees on the additional $50,000 on the raised price.
2. If you decide you don't want the seller to see the details, or if they are out of state anyway, you can have the seller fill out a Limited Power of Attorney. This would allow you to sign documents on their behalf for this home at closing. You can then change the price to the new price, and sign on their behalf. It is completely legal and legitimate as

long as they get the amount they were supposed to receive at closing. The seller will receive a larger 1099 on the sale of their home, so they will need to be aware that it won't affect them taxwise. Talk to a CPA. They will have to sign a payoff letter prior to closing for the title company or attorney. It might have to have the dollar figure of payoff versus the sales price. In other words, it might say something like this:

> *To Whom It May Concern:*
>
> *I am to receive $ ______ in my closing with Wendy Patton (subtract the closing costs and figure out what they should receive). Please mail my check to __________. Call me for any questions at (111) 222-3333. I will not be present at the closing, but Wendy will be signing the documents on my behalf, for which I have signed a Limited Power of Attorney.*
>
> *Sincerely,*
> *Joe Smith*

See the following page for an example of a Limited Power of Attorney form.

Partner with the Seller for High-End or Hot Markets

There are some states and locations where property values are very high and might be cost prohibitive or risky. Consider partnering on those homes with the seller, making the seller a partner in the profit of the sale. If a home is worth $700,000 and the rental rate is $3,000 per month, you may feel hesitant to take on this type of property; however, this home may also net $150,000 or more in profit. A seller of this home may also feel uncomfortable giving away all the profit for this type of property. This might become an objection for a seller in this price range or in a hot market that is appreciating rapidly. You can always offer to partner with this type of seller. A partnership doesn't have to be 50/50, but it can be. If you are doing all the work, the partner should cover all the risks. For instance, if the home is vacant, the seller should continue to cover the monthly mortgage payment, or if the tenant-buyer doesn't pay their rent, then the seller should cover the payment. If they want part of the reward, they need to cover the risk.

Limited Power of Attorney

This limited Power of Attorney is given to ________________, for the purpose of Closing, Closing Documents, Contract Changes that don't affect owner's bottom line, Insurance, Mortgage Payments, etc., or any other matters that pertain to the property located at:

____

This limited Power of Attorney shall become valid as of the date signed below and be in force until the final closing of the property. Photocopies of this document shall hereby be treated as original counterparts.

POWER OF ATTORNEY GIVEN TO: ______________________________

Agreed to by:

______________________________	______________________________
Seller's Name	Seller's Name
______________________________	______________________________
Date	Date

Notary

STATE OF ___________________ COUNTY OF ________________________

Before me personally appeared _____________ ______________________, to me well known and known to me to be the person described in and who executed the foregoing instrument, and acknowledged to and before me that he executed said instrument for the purposes therein expressed. WITNESS my hand and official seal in the State and County aforesaid, this __________ day of ____________________ 20XX.

____
Notary Public Signed

___________________	___________________
My County of Residence	My Commission Expires

Refinance for Cash

Refinancing may not seem like an advanced strategy, but you can make it into a very lucrative tax-deferred strategy. For example, let's say you have a house that's worth $200,000 and you only owe $140,000 on it. You can refinance it (i.e., a new mortgage) and take out some of your $60,000 in equity, which is not a taxable event. Now you have a portion of that $60,000 to reinvest while still holding on to the original property. Talk to a mortgage broker in your area for current programs and your individual situation; most likely you will not be able to take out the entire $60,000, but each case is different.

Lease options and subject-tos are investment strategies that can take nontraditional forms.

Ethics and Capital Gains

There are ethics issues you will need to deal with in the real estate investing business. Many times we as investors will know about certain IRS or other regulations or laws relating to real estate that the seller may not understand or even consider when making a deal with us. It is important to deal with everyone fairly. The IRS rules are constantly changing and you can't give tax advice unless you are a CPA, so have the seller check with their CPA or tax adviser, but you should be aware of the capital gains rules and how they can affect your sellers.

The Capital Gains Rule

If you have lived in a property as your primary residence for more than two years and you sell it, you don't have to pay capital gains. The IRS has changed the capital gains on our personal residences to a rule that, in simplified terms, goes like this: Every two years you can sell your primary residence (yes, the one you *live* in, not your investment deals) and you can keep the profits of up to $250,000 if you are single and $500,000 if you are married, tax-free. Anything above that is taxable, and any time period different than that becomes more complex. Basically, if the seller lives in it for two out of five years, it qualifies for this tax-free gain. This allows the seller to rent the home for three years—but not one day longer. This rule may also change.

Wendy's Ethics Example—Capital Gains

Suppose you have a woman who has lived in a house for 30 years and she has over $200,000 worth of capital gains. The IRS allows you to have up to $250,000 capital gains tax-free if you are an individual and $500,000 if you are a couple. If you buy her house within three years of initiating a lease option deal, she pays no capital gains, but if you go over this by even one day, she'll have to pay taxes on the $200,000 in capital gains—it would not be tax-free anymore. Your inability to close a deal within the three-year period could cost her tens of thousands of dollars, and that's just not fair to her. If you have done a five-year option with her, you have just erased the most recent two years she lived in the home and potentially exposed her to capital gains. Many sellers think the old law of "one sale over age 55 and no capital gains" still exists, but it doesn't, and if you're educated about that, you should be ethical and educate the seller as well. I care about the people who have been in their homes many years and who have a lot of capital gains—and therefore a lot to lose—especially since they probably don't understand the current tax laws. If your seller has a lot of capital gains, advise them to speak with their CPA and attorney if they really want to go for a five-year deal so that they understand the financial risks and liabilities.

However, if I know the seller has little to no gain in the home, I am far less concerned about their capital gains and may do a five-year option.

What to Do When Your Option Comes to an End

Time is running out on your contract—now what? Let's assume you had three years with the seller to purchase their home. The time is fast approaching and you do not have a buyer who can purchase yet. First, make sure you don't end a contract with a potential buyer on the same day that your contract ends with the seller. I recommended

leaving three to six months at the back end of a deal. For instance, if you have three years with the seller, you should give your buyer 12 to 18 months. If they don't exercise, then give the next tenant-buyer only 12 months, thereby leaving yourself six months at the end of your contract with the seller for other possibilities.

Let's say buyer number two doesn't want to exercise either. What are your choices? Surprisingly, there are many—I'll name six here. You can do any of the following, and in any order you choose, but I recommend that you always try number 1 first:

1. *Ask the seller for an extension if you want one*. Most sellers will give you an extension if you ask. Many times the sellers will just give it to you with no costs. Sometimes the extension might cost you more money—a little more now in the form of an option fee, in the future on the sales price, or more each month. If you can work it out for a win-win, do it. Make sure the extension is in writing—don't take their word for it. All real estate contracts *must* be in writing or they are not enforceable.
2. *Buy it yourself*. You can get a mortgage with a lender and purchase the home. You would definitely want to consider this if you can afford to do it and there is enough profit in the deal. Don't give the home back to the seller unless it is not worth the amount you agreed on or there is something wrong with the market or the home (something that you or your tenant didn't create). With 12 months of canceled checks on a lease option, you can get a mortgage that is treated like a refinance rather than a purchase. This type of program is also available to your buyers after 12 months of payments. If your mortgage broker doesn't have this program, find another mortgage broker. You don't always need good credit yourself if there is enough equity in the home. Look around and talk to some lenders, but don't wait until 30 days before the end of your contract—talk to a mortgage broker months in advance. Sometimes these types of loans can take months—I found this out the hard way.
3. *Sell the home directly to another buyer*. You will have to sell the home to another buyer directly, not a tenant-buyer. It may be someone referred by a Realtor or someone you found in the newspaper.

4. *Partner with someone if you can't do the mortgage yourself*. If the home has some equity and you can't refinance it, you can't sell it, and the seller won't extend, then bring in a money partner who can get the mortgage. Give them a part of the equity or a fixed amount for doing the financing. This will give you more time to resell it on the market or to lease option it again. You can find money partners in your local real estate investing group.
5. *Don't exercise your option*. Tell the seller you don't want to purchase, and then you can walk away from the deal. Remember that an option with the seller only gives you the right, not the obligation, to purchase. You must return the home in equal or better condition, less any normal wear and tear. You can't return the home with damage.
6. *Assign the deal to another investor*. You can wholesale this lease option to another investor for a fee, and then they can do one of the above five choices.

PART 3

HOW TO GET REALTORS TO HELP YOU DO LEASE OPTIONS

CHAPTER 10

Building Rapport and Sharing Lease Options with Realtors

Why Work with Realtors?

Approximately 80 to 90 percent of the nice homes on the market are listed with Realtors. The percentage varies from city to city and area to area, but they certainly control most of what's on the market. So they have access to the sellers that I need to get to in order to buy those homes. They will not participate in subject-to deals, because of the risk to their sellers, so I will not talk about that acquisition technique in these next two chapters on dealing with Realtors.

Working with Realtors will change your investment strategy forever. Thanks to Realtors, I get more deal offers than I can go look at—I don't chase them anymore. Once you get the Realtor system working for you, you will only need to evaluate which deals you want to pursue. The Realtor system is getting Realtors bringing you deals.

Many investors believe that real estate agents don't have the best deals, or that the deals have already been picked over by the time they actually hit the market. In many cases, this is true—there are deals that never hit the market, because they are very good. Realtors have clients who buy the best deals before they ever list them on the MLS (Multiple Listing Service). There are also deals that never

get to a Realtor—foreclosures, traditional for sale by owners, the homes investors find by driving by, and so forth. But I believe some of the sweetest deals are sitting on the market, listed with a Realtor, deals that no one even sees because they are looking for traditional or wholesale types of investment homes (meaning paying cash or getting a mortgage on the home) and not lease option homes.

When an investor considers traditional financing or buying with cash, they must be able to purchase the home for a much lower price. However, when they can buy the home on a lease option (terms) then they can pay a higher price, therefore opening up the market to more properties to choose from. When working with Realtors, it is less possible to lowball a home and get the deal through. Realtors typically don't like investors for that reason.

Since most of my lease option deals come from Realtors, it is important that I understand their perspective. Most of them have been trained to sell real estate for a living—traditionally, from beginning to end—in these ways:

Six Steps a Realtor Goes Through on a Traditional Sale

1. List a home for sale.
2. Find a buyer.
3. Get a contract signed.
4. Have the buyer get a mortgage.
5. Close on the home.
6. Get the commission.

Most Realtor deals are done this way, but what about the times when their listings don't sell? or when they don't sell quickly enough for the seller to feel comfortable? They are not taught to bring creative alternatives to the table for their sellers.

In a strong seller's market, Realtors typically don't need to consider anything creative, because homes are selling very quickly. However, even in seller's markets there are some homes that won't sell quickly for some reason. These are the homes that Realtors will need to consider being creative with.

In a buyer's market it is much easier to pursue lease options with Realtors and sellers. They will be more creative and open on

ways to sell their listings. In a buyer's market the Realtors won't get any commission if the home doesn't sell or if the listing expires and the seller lists the home with another Realtor. Also, in a buyer's market, sellers tend to put more pressure on their Realtors to sell their home, which pushes the Realtor to be more open-minded to new ideas and to pursue other alternatives for their sellers. They really do want to sell their customers' homes, to help both their sellers and their own business. That's where I come in. I teach Realtors about the alternatives I offer and how I can help them help their seller.

Finding the Right Realtor

The Realtor you will need to find for lease options will be a seller's agent or what is called a *listing agent*, the one that lists the home for a seller. A listing agent is the one who works with the seller and has his or her name on a sign in the seller's yard. If you want to buy in a certain neighborhood, you can usually find the strong listing agents by driving through and seeing whose names appear on the real estate signs in the yards.

A buyer's agent, on the other hand, represents and works for the buyer. A buyer's agent looks out for the best interests of the buyer whereas a seller's agent (listing agent) looks out for the best interests of the seller. You want a buyer's agent when you're purchasing your own home, but a listing agent is the one to work with when buying lease options or lease purchases—with my strategy.

Realtors have a relationship with their seller that is very unique. Sellers tell their Realtors almost everything about their personal lives. Realtors therefore know who is motivated and why. They know who is getting divorced, if they are in trouble financially, if their builder is almost done with their new home, if they have custody issues, if they are getting worried about double house payments, and how many grandchildren they have—as well as the name of their dog who died last year and what Uncle Ned did at the family reunion. I imagine Realtors sometimes want to say, "That's really more about your personal life than I ever wanted to know," but they don't. They stay as interested as possible in order to build rapport.

Because the Realtor is providing a very necessary service to the

homeowner in helping them sell their house, and because the homeowner so freely tells the agent *everything*, the homeowner is not shy about calling the Realtor and saying the four-letter word after the home has been sitting on the market awhile: "Realtor, if you don't sell my home soon, I am going to have to *rent* it!" This word makes a Realtor cringe. The only thing you can say to a Realtor that's worse is, "Take my home off the market." If the home doesn't sell soon, the Realtor won't get any commission and has lost countless hours in showing the home as well as dollars in advertising and marketing. Although the Realtor is licensed to rent it for the seller, most Realtors don't know how or don't want to rent it. The commission for renting a home is so small, it is generally not worth their time, unless they are a property management company and do a large volume of rentals. Many real estate companies don't handle rental properties at all because it is a such a different type of business and carries one of the biggest liabilities for Realtors.

In my area, when a Realtor hears the four-letter word *rent*, my phone rings. I have spent years developing rapport with the many real estate offices in my area as well as with individual Realtors. They know what I am looking for, and they know how to pique my interest in ways that might get me to drive by the house and see if I'm interested. Why? Because when they work with me to give me leads on potential lease options, they know they can get their commission paid—and paid much more quickly than on a traditional rental deal. Although I don't pay it myself, technically—the seller always pays that—I am willing to front the commission. This creates a win-win-win between the Realtor, seller, and myself: The Realtor sells the listing, the seller sells their home, and I buy another investment home. We all win!

Networking with Realtors

You only need to work with two to four listing agents per year to make a comfortable living. You can find listing agents in the real estate section of your newspaper or through personal contacts or your investor groups. I have one Realtor in my area who gives me only one deal a year, but I make at least $30,000 each time. I stay in touch with

her every few months just to keep my name fresh and to keep the relationship moving forward.

Realtors know lots of other Realtors, so if you have one contact, you can network through that one to access many others. Call the local real estate board to find out when they have local functions, and go mingle. Exchange business cards at the functions. If you don't have cards, get some printed. It's more important at this point for you to have their cards than for them to have yours, but having a card to exchange is more professional. You want them to know who you are and how to get in contact with you. Take a Realtor out to lunch.

Rent a conference room and invite Realtors to a wine and cheese party; then give them a presentation about lease options or lease purchases. Draw them in by focusing on what's important to them: "Would you like to sell more listings and make more money this year? I can teach you for free!" Do something to advertise it that grabs their attention without giving away all the details. Don't be alarmed if only five or six people show up, because those few are very interested in creative solutions. You might even put on your invitations: "Would you like to be more creative than your competition? Would you like to know things that your competition doesn't know about yet? I can teach you some creative ways to sell your listings that your competition hasn't even thought of."

If you are not sure who to call to get started, talk to the people in your local investing group, since there will be some Realtors in your group. These are not the Realtors you will be working with, as these are investors themselves and not traditional listing agents, but they should be able to tell you who the listing agents are in their offices. The top listing agents from the companies are also listed in the paper. It's worth starting a database or spreadsheet to keep up with who is where and what they do, especially with the people you begin to contact and develop relationships with.

Your local investors group can also be a great resource for brainstorming more ideas on drawing people in. Not only will they be interested in giving you feedback, but you may even find a money or managing partner there who is also keen on investing in the lease option strategy. You can then go in as a team and make a presentation.

Sharing the Realtor System and Targeting Realtors

Working the Realtor system is a multistep process. Building a relationship with a Realtor does not happen overnight. Just as you need to build rapport with your sellers, you also need to build rapport and credibility with Realtors. Here are some tools to get the process moving forward.

Letters

I have a couple of letters that I use to contact Realtors, primarily those with homes that have been listed over 90 days on the market. One letter is for use during a buyer's market (lease options) and the other for use during a seller's market (lease purchase). They both explain when a Realtor should consider me and how lease options and lease purchases can help them and their sellers. It is *very* important that a Realtor understands how you will help their seller. Their first obligation, by contract, is to the seller. Then they are concerned about themselves. My letter explains how I will help their seller *and* pay them.

Phone Calls

I will also call Realtors and go over something similar to what my letter says. You might want to catch them after hours so you can get your entire thoughts out on their voice mail and not flub it up, or if your time is limited. Then they can listen to it more than once and call you back for any questions. Also, it doesn't tie you up in a 30-minute call where there may be no interest.

Basically my message will sound something like this:

> *Hi Sally, this is Wendy Patton. I am calling about your listing on 123 XYZ Street. I am wondering if it is still available? I noticed it has been on the market for a while and I wonder if your sellers would consider something a little creative? Something like a lease option? If your sellers don't need their cash out now but would like their monthly pay-*

ment made and you would like to sell their home, and get paid your full commission, please give me a call. Sally, if it won't work for this seller, but if any of your other sellers have said to you that if their home doesn't sell soon, they might have to consider renting it, please give me a call. I buy homes when sellers can consider terms like this. Don't lose your commission to sellers that want to rent. Please call me. Thanks, Sally, for considering this. My number is . . . Again, my number is . . . and my name is Wendy Patton. Thanks, Sally.

This might be what I would say in a buyer's market. If it was a seller's market I might change the wording to a lease purchase. I would add that it's a guaranteed sell for the seller and that the Realtor's commission is paid up front. This makes it a much stronger call, which is necessary in that market. See Chapter 11 for the letter I use in the seller's market, with wording that makes it appealing to the Realtor.

Getting Your Foot in the Real Estate Office Door

Real estate offices get many requests to host speakers and salespeople, so it can be hard to get an appointment. The best way to start is to go to a real estate office where they know you and can recommend you. If you know someone who is a Realtor, ask them if they can assist you in getting into their company meeting agenda so that you can do your presentation. If you don't have a contact, then call the office directly and speak to the office manager or broker, and use an introductory letter. Tell them a little about yourself, keep it brief, and ask if you can present your ideas to their staff. They get bombarded daily by mortgage companies, title companies, and many others trying to get their business, so they don't like a lot of salespeople and they like to keep it short and sweet. However, keep in mind that the lease option or lease purchase system offers something unique and different. The real key is to show them how this system will help them to sell more of their listings.

I like to send a letter to the broker that grabs their attention. That means I leave out stuff about me, my background, and my

credentials, because when it comes down to it, I'm trying to sell a concept more than I'm trying to sell me.

Your letter should be on letterhead and might sound something like this:

> *Dear (broker's name),*
>
> *Would you like to assist your agents in learning new ways to sell their listings? I buy real estate and I have some ideas for your agents on how to sell more of their listings. I buy many homes in this area. I have a professional presentation that I would like to show you and your agents. I understand you get bombarded with salespeople trying to speak to your agents. I am not a salesperson. What I offer is unique and is something every real estate agent should know about.*
>
> *I have some creative ideas that might help you sell some of your office listings. I don't sell anything. I would love to meet with you to explain some of my ideas. My presentation is 10 to 15 minutes, so it will not take up much time, but it will be very valuable for your agents and your company.*
>
> *We have many references from clients like yours and from other real estate agents, including (agent 1, agent 2, agent 3). Please talk to them to find out how easy it is to sell a home to (your company name). Please call me to set up a time when I can meet with you and share the information that I would like to present to your real estate agents. My phone number is (222) 333-2222.*
>
> *Sincerely,*
> *Wendy Patton*

I also have letters that target specific Realtors and their listings, and I send them out constantly.

Educating Realtors

Realtors are not trained to do creative selling, and sometimes investors think they are not very sharp because they don't know how to do unique deals. That's one of the biggest stumbling blocks for in-

vestors trying to work creatively and effectively with Realtors—investors expect something that Realtors are not trained to do. As an investor, you will need to instruct a Realtor if you want them to be able to work effectively with you. This doesn't mean teaching them how to invest, but what key words they should listen for and how it will help their seller and themselves.

When people get real estate licenses, they are trained mostly on the law—seller contracts, lead-based paint, legal issues, fair housing, and things that are required by the state to make a real estate transaction go professionally from start to finish. However, they are not taught things like, "What if the house doesn't sell?" or, "What if the seller says that four-letter word?" It is your job to teach a Realtor what to listen for and how to help you and themselves in these types of deals.

Most of us know at least one Realtor, or we know someone who knows a Realtor. Practice your presentation on lease options or lease purchases with a Realtor, and ask for feedback: "Did I present the lease option concept clearly?" "Was my presentation too long? too short?" "Is there a better way for me to communicate this idea to Realtors?" "May I set up an appointment to present this at your local office?" The last question is especially good if your practice presentation has gone well and you are ready for the next step.

You will then want to go to the Realtor's office meeting. Call their broker or have the Realtor set it up for you to come to one of their meetings.

What to Bring to a Meeting

You must have a presentation prepared before going into a meeting. Don't ever think that you know enough to just wing it. Here's a list of what to bring:

- When you attend a meeting, it is customary to bring donuts or bagels, so call first and ask the office manager or broker what the agents would like.
- Have all your materials organized neatly and accessibly. You don't want to be fumbling for information and making them wait on you. Time is money—they will want you to be in and out quickly.

- Enough handouts of your presentation for everyone who attends the meeting and for the absentee agents. Call first and get a head count. Always have more than necessary in case they ask for extra copies. You won't need to give them a copy of each slide you present, but you can give them a one-page overview of how lease options will help them and their clients.
- Extra business cards (stapled to your handout).
- Make sure all handouts have your name and contact number on them.

Begin Your Presentation

Realtors will be open to the idea of lease options, or lease purchases, if you help them understand how they work and when they are appropriate for their sellers. Lease options are not the right thing for all sellers. The presentation needs to be educational about the benefits of lease options to them and to their sellers. I give a PowerPoint presentation going over the program step by step, and then open it up for questions and answers afterwards. If you don't have a computer to bring with a PowerPoint presentation, you can make overhead slides.

Your presentation might start off something like this: "Thank you for allowing me to come to your meeting today." Always remember to thank them for their time. "I am here to talk to you about some very exciting concepts that I have discovered that work for Realtors and their clients. Specifically, creative options for Realtors—things that you may not have thought about before or may not have considered for your clients. Let's get started."

Here is an outline of what I cover in my 10-minute presentation.

1. Introduction of myself and the name of my company.
2. My agenda: Discuss creative and innovative options for Realtors.
   a. Why I'm not a competitor but a help.
   b. How to help them sell their listings.
   c. Unconventional versus traditional sales approaches.
3. What to look for in a seller who might need my services.

4. What to look for in a buyer whom the Realtors can't help.
5. The lease purchase or lease option—when I do it and the guarantee it brings.
   a. How it works.
   b. How I pay commissions.
   c. Benefits to the seller:
      - I take over payments.
      - I take over maintenance.
      - No rental headaches.
   d. Benefits to the listing agent:
      - Quick sale—saves time and money.
      - Commission paid up front.
6. What types of homes are acceptable to me.
7. What price range I'll consider.
8. Referral fees.
9. Closing statements.
10. Ask if they have any questions.

I don't stay very long once I'm done. Usually the questions are brief, and I'll stay only as long as they continue to ask for more information. But Realtors generally don't have a lot of free time in the office, so they're looking to get as much information from me in as short a time as possible. Many times, after my presentation, they realize how I can help their sellers. Then they start to write down addresses on the back of their business cards for me. I often walk out of presentations with lots of cards and leads to pursue.

Making the Realtor Part of Your Team

If you're new at this business you might feel like a very little fish in a big pond, but when you have established a relationship with a Realtor, they become a part of your team whether they realize it or not. Now you're going to start to work together on finding solutions for the *rent* problem. You will also be able to help them during a buyer's

market when things are slow by cherry-picking their motivated seller deals as investments.

Because they are a part of your team, you will want to build that relationship above and beyond just what they can do for you and what you can do for them. How about sending a thank-you gift every time a deal goes through that they have led you to? These little rewards go a long way in keeping the rapport top-notch and ensuring even more leads in the future!

Building Rapport: The Follow-Up

Follow up monthly with Realtors who might be strong listing agents or who work with lots of sellers. Remind them what you are looking for. Remember, if they are successful they are busy, and they might not always remember you. You might have to remind them of what you do and how you can help them in their business.

I don't like to call Realtors during the day and interrupt them—or interrupt my own day. I prefer to call their offices late at night and leave a voice message. That way they can listen to it first thing in the morning—they start their day off with me reminding them of a creative way to do business. It might sound something like this:

> *Hi Kathleen, this is Wendy Patton. I wanted to say hi and let you know I'm looking for another home that I can buy on a lease purchase. Do you have any sellers right now that might be able to consider this type of solution? If so, please give me a call. My number is ________. Thank you, Kathleen, and I hope to talk to you soon.*

If I haven't done business with them yet but I have been trying to start the relationship with the first deal, I would say something else:

> *Hi Kathleen, this is Wendy Patton. I am still looking for a home and I was wondering if any of your sellers have said that they might consider renting their homes if their home doesn't sell soon? I know most of your sellers do want to sell their home outright, but if you do ever hear one of your sellers say they might rent it, Kathleen, please do call me. I will make sure you get your commission in full.*

If you aren't a licensed Realtor, you can add:

Also, Kathleen, you will get to double-dip on the commission and receive the full buyer agent portion, too, when it closes on the back end. I don't have a Realtor involved. I will write up the offer, but you can have the entire commission. If your sellers rent out their home, they might not sell it, and neither one of you would really get what you want. I would love to do a lease with an option and make sure you both get paid in full. Please keep me in mind if this type of situation comes up. This usually works well for any type of seller that does not need their cash out at closing to move on to their next home. Thanks so much, Kathleen. Feel free to call me with any questions. My number is. . . . Again, that is. . . .

Follow-up is key with Realtors. However, don't be a pest. I would recommend a reminder call no more than once a month, maybe even every other month, especially after you have the relationship established. And you don't want to say the same thing each time you call. Try another way to explain how options or creative deals work. Here's another example:

Hi Kathleen, this is Wendy Patton. Just checking in to see if you have any sellers who might not need their cash out of their home at closing or who might be financed near 100 percent? If so, my type of solution might work well for them. Give me a call on any listings you have like that so I can set up a time to go and see them. I hope to talk to you soon on one of your listings. Kathleen, thanks for the opportunity to work with you. My number is. . . .

Wendy's Advice

Get the Realtor system shared with some Realtors. The sooner you do this, the sooner you will get Realtors begging you to buy their listings!

Ethics with Realtors

Honesty and integrity with Realtors will be the key to successful relationships with them. If I deal badly with Realtors, it's going to affect my reputation and damage the business for other investors. Real estate is a small world, and word gets around if you stiff a seller or walk away from a contract and tell them, "Go ahead and sue me." Realtors find out, and, as previously mentioned, they control 80 to 90 percent of the homes on the market. Even if your own ethics are good, if Realtors hear horror stories about deals gone bad because of investors who reneged on their lease options or lease purchases, it hurts the market for the rest of us.

If you've committed to something with a Realtor, get back with them and do it. There's nothing worse than going to a group of Realtors with a presentation, getting 10 leads, and then never getting back to them regarding what happened with those leads. The Realtors will wonder what the point of helping you with leads is if you don't follow up. It's the surest way to kill the rapport you have worked to establish. Did you look at the properties? What did you think? Are you interested? Are you going to pursue? Follow up and let the Realtors know! Even if you don't have time to look at the properties, or they weren't what you wanted, communicate that. Keep the lines of communication open so they will continue to provide you with leads. The relationship must be a two-way street. And the more *you* give, the more they are willing to give.

Sometimes a Realtor will call me about what I call a dumpy property. I look at it and know it is overpriced. Now I'm faced with a dilemma: I don't want to insult the Realtor, because I want to keep that relationship positive, however, they were the ones who called me about the property. The best strategy is to be honest with them. I would say something like this:

> *Sally, I looked at the home on 123 Main Street today. Boy, with what it needs, and what I think I can sell it for, and my carrying costs, the most I could offer would probably be an insult to the seller. I certainly don't want to affect your relationship with the seller. I think I will have to pass on this one, unless* you *want me to still write it up. I will leave this up to* you.

See how I keep the door open to them? I explained my reasons in terms that the Realtor can understand without being insulting to her or the property. Not only that, but I've left the lines of communication open in such a way that the Realtor will call me back one way or another regarding the house. This is what I want: I want them to continue to call me because they are my first relationship. Forget the house! Many times they know it is overpriced and they just want an offer to show the seller. If they want me to write up an offer, I will. What often happens in this case is that the seller doesn't think their home is overpriced until they get an offer from me and are shocked into reality. Then the seller reduces the price and the agent can finally sell the home. Thus, I have helped the Realtor make the sale. This might not help me as an investor today, but it will help me when the Realtor thinks of me for their next listing. For me, that one home is just a home. I want the relationship, so that they will bring me five more homes down the road.

Remember that being an investor is a long-term strategy. Building rapport with Realtors is an essential part of the long-term big picture.

CHAPTER 11

Closing Deals with Realtors

Why Aren't Lease Options or Lease Purchases Appealing to Realtors?

When I first started doing lease options with Realtors back in the early 1990s, it was a strong market in Detroit, but I wasn't getting very many leads. This both puzzled and bothered me because I thought I had something great to offer them. I went to my best friend, Debbie, who is and was a local Realtor. I said, "Deb, look what I'm offering these Realtors—it's a great thing for their sellers! Why aren't they all coming to me with their deals?"

She looked at me and said, "Wendy, do you truly believe it's a great deal for the Realtors if they have to wait three to five years for their commission? They might not even be with the same real estate company when the house closes. This is a *hot* market—they can probably sell their listings to someone else and get paid before then. They're not motivated to work with you on these types of deals. Why should they wait for years for their commission when if they just wait for a couple more months, possibly weeks, on the MLS, they'll get their full commission now?"

I replied, "So what should I do?"

She said, "You're creative. Think of something."

I said, "You mean like pay their commission up front?"

She responded, "That would be a really good start."

And that's when I started paying Realtors their commissions up front, and my ability to purchase completely turned around, especially in a seller's market.

Addressing the Commission Issue

Realtors are not greedy, but they do want to be paid for the services they are providing for their sellers.

By contract, they are not entitled to their commission until the sale closes. If closing is a number of years down the road, what's the likelihood that the Realtor will want to wait that long? They may not even be with the same real estate company by then, and because the deal is with the company, not with the Realtor, in most states if a Realtor leaves one agency and goes to another, they may completely forfeit their commissions. This makes the option strategy unappealing for Realtors, primarily in a hot market.

The Realtor's job is to look out for their sellers' best interests, and many Realtors don't feel a lease option is a good solution for the sellers. If a Realtor is simply dead set against it, just move on. There are lots of Realtors who are creative enough to want to work on finding innovative solutions for their clients. You just have to help them understand when these solutions would apply. Likewise, if a seller adamantly won't do it, move on. Only spend your time on the people/sellers open to the idea.

The reason most Realtors don't consider these creative solutions and can't help their sellers move in that direction is because most sellers *can't* consider a lease option or purchase. Most sellers need their cash out in order to buy the next home. I estimate that only 5 to 10 percent of sellers can consider a lease option because these sellers *don't* need their equity out of their home to buy their next home. In my experience, sellers who can consider a lease option or lease purchase will usually do it for two to five years in a seller's market and three to ten years in a buyer's market. The seller's situation will determine the length of the lease option, the payments, price, and other terms.

When a lease option is a viable solution for a seller, the next hurdle is to ensure that their Realtor will benefit from the deal as well. This chapter explains how to keep the Realtor in the win-win formula, and how to keep that positive rapport with the Realtor for future deals.

In a seller's market, my letter to the Realtor would look like this:

Dear Sally,

Would you like to sell your listing at (address of property)?

Maybe we can help. We buy homes . . . especially when your clients can accept terms like a lease purchase. As soon as your client says to you, "If my house doesn't sell soon, I might have to rent or lease it," this is a great indication that our services might help you sell the listing.

When your client sells their home to (your company name) . . .

YOUR COMMISSION IS PAID UP FRONT!

and it would be a guaranteed closing for your seller.

When would a client be able to accept a lease purchase? Here are some situations:

1. *They don't need their cash out yet but would like to either have cash flow or have their payment made.*
2. *They have very little equity (i.e., financed near 100 percent).*

We have many references from clients like yours and from other real estate agents, including (agent 1, agent 2, agent 3). Please talk to them to find out how easy it is to sell a home to (your company name). Give us a call if this type of solution might work for your client.

Sincerely,
Wendy Patton

In a buyer's market I would use the words "lease option" and I would also say their commission is paid "in full" versus "up front." It is not as strong, but still very positive.

After I started to send out this type of letter, the deals started to

come in. The commission was no longer a stumbling block issue for the Realtors—they didn't have to worry about waiting for years to be paid for the work they were doing then.

In a weaker market or a buyer's market, I don't pay the entire commission up front—I might only pay part of it, say 1 to 1.5 percent versus the 3 percent I would pay in a seller's market. They would then have to wait until closing for the remainder of their commission. In a weaker market they realize that they might not get paid at all if their listing doesn't sell. At the same time, I am getting less from my buyers in these markets. Remember, a slower market for sellers means a slower market for buyers; less money for sellers translates to less money for buyers. Realtors understand that when business is slow for them, it is slow for me, also.

Here's an example: I offer $200,000 in a seller's market and I pay 3 percent of the listing portion of the commission up front. This is $6,000. I would owe $194,000 when I pay off the seller (when I exercise my option). However, if I don't exercise my option, I would not get that money back. I am fronting the seller's expense for the real estate commission.

Structuring the Deal for the Realtor

Understanding the current economy is essential for making the offer work effectively. Know whether you are in a strong buyer's market or seller's market so that you can structure your offer appropriately.

Seller's Market

This is the market where things are selling quickly, appreciating strongly, and sometimes multiple offers are made on the same house on the same day. This is also a time when the economy is good, things are happening, there's a lot of new construction, and so on. When homes are selling quickly, Realtors are getting paid quickly and in full, so in the beginning of a lease purchase, I offer to front their commission *in full*. Realtors prefer a lease purchase in

a strong seller's market. A lease purchase means you are guaranteeing you will buy that home, so don't do it unless it's a strong seller's market, with good appreciation, or you're positive you want that home.

Buyer's Market

A strong buyer's market is the opposite: Things are not selling, business is slow, unemployment is higher, homes are sitting and sometimes going from one Realtor to another in an attempt to sell, and there's little or no appreciation, sometimes even some depreciation. Net result: Realtors are not selling their listings. The result is Realtors are much more negotiable because they're likely to lose their listings, and the sellers know that things are slow, which is making them more anxious. This opens up many opporunities for lease options. During this time I only offer part of the commission up front, possibly part in 12 to 18 months, and the rest at closing. Keep in mind, however, the fee is really coming out of the option fees that the tenant-buyer pays to me and not out of my own pocket. When I assist the Realtor in getting paid, they are more likely to work with me again. The rule of thumb is: Weak market, weak offer; strong market, strong offer; but above all, always be fair.

Sequence of Events When Working with a Realtor

The Realtor gets paid when I put someone in the home—in other words, when I get money from someone else. The sequence of events is as follows:

1. The Realtor gets a listing.
2. The seller says the four-letter word, "rent," and the Realtor shares it with me.
3. I look at the property.
4. We negotiate it through a proposal.
5. We agree on the terms.
6. I write up a full offer.

7. The offer gets signed.
8. I find a tenant-buyer.
9. I pay the commission or a portion of the commission to the Realtor.
10. The tenant-buyer moves in.
11. Closing happens at a later date.

Sometimes I say, "I'll commit but not until . . ." and I give them a future date because I need time to find a tenant. Even if my tenant doesn't move in by the start date, I am still responsible for paying the full commission on that date. It is a stronger offer to a Realtor and to the seller if you commit to starting on a certain date, regardless of whether you have a tenant. If there is no tenant-buyer, the commission will come out of your pocket—not exactly zero down for you the investor, but it is still a low down payment on the deal. If you have a tenant-buyer, the commission you need to pay will come out of the option fees from your tenant-buyer. You'll have to decide what risk you can afford when you set the start date.

If a Realtor is working with a non-Realtor on a sale, the Realtor will be glad to wait for half of the commission up front, but they won't wait for all of it on the back end. They'll wait for a double dip, however. A double dip is when the Realtor gets the portion from both the seller and the buyer. If you are not licensed, the Realtor would get both sides of the deal. (I need to be very clear about the payment to Realtors. It isn't the Realtor I pay but the brokerage firm the Realtor works for. The Realtor gets their commission cut through the brokerage.)

Structuring the Deals—the Details

A proposal is used to put together a mock-up offer to a Realtor that they can then present to the home owner or seller. It will put down the overall terms in writing without the specifics. This saves a lot of paperwork because you only fill out the entire offer *after* you have an agreement on the proposal.

Here is what a proposal can look like to a Realtor or a seller. This is a lease purchase example, but it could be modified in format for a subject-to or lease option.

Majestic Realty, LLC

Proposal

123 XYZ Street

Innovative Approaches to Leasing/Selling

Majestic Realty, LLC
has 2 programs to offer you…

Please review the following options that we can offer you as a seller and consider which would serve you best!

Lease/Purchase to Majestic Realty #1
Majestic Realty can guarantee you a monthly fee of $1,100.00 for a lease term of 3 years. We would then guarantee the purchase of your home within the 3-year term at a price of $250,000.00.

Lease Purchase to Majestic Realty #2
Majestic Realty can guarantee you a monthly fee of $1,150.00 for a lease term of 5 years. We would then guarantee the purchase of your home within the 5-year term at a price of $255,900.00.

In options 1 and 2 we would pay the rental amount whether the home is vacant or rented. You would still need to carry your homeowner's insurance and pay your property taxes until the home is closed. We would be responsible for everything else from the date this agreement starts, including all maintenance (minor and major, except the first 60 days). We will do a home inspection prior to taking over the lease purchase agreement. We would like to have all the appliances left with the home. This would not be a VA or FHA type financing, and you would be responsible for nothing when we get our mortgage. You would pay only the seller's title insurance and transfer fees.

We will start this contract when we find someone to lease from us; however, in the meantime the seller has the right to leave the home on the market. If you sell the home first, then this offer would be declared null and void.

The purchaser will put $7,500 (3 percent) down, which will be paid directly to (realty company name) and applied toward the listing portion of the commission and the purchase price at closing. Any remaining commission due will be paid out of the seller's proceeds at closing, to (realty company name) and Majestic Realty, LLC.

We have many references available upon request. Thank you for considering Majestic Realty!

Don't be anxious on the proposals—make it low pressure. When you're first starting out, you'll want more deals to go through because there's a great excitement in the newness of the game. You'll be revisiting your proposals, wanting a quick response, and thinking of ways to use the money you're going to get on the back end if everything goes as expected. Although I do try to come up with creative solutions if I think there's a profit to be made, I don't keep checking my proposals. It's a bit like testing the doneness of spaghetti: You throw it against the wall, and if it sticks, it's done. If your deals stick, they're done. If they don't stick, hopefully you've got others in your hip pocket that you're working on anyway. Don't get too wrapped up in a deal happening, because a lot of them won't. About 30 percent of my proposals work out—which means that 70 percent come up empty.

With some of the Realtors I know very well, I might even do a verbal proposal. For example, I might say, "See if the seller will go for $1,200 per month, and if they do, then I'll put together a proposal." I'm just fishing a little bit to see if it's even worth sticking around in that spot or moving to another. If the seller goes for it, I hammer out a proposal, and if not, there are plenty of other deals out there!

Wendy's Advice

If it is meant to be, it will be.

PART 4

STEPS TO SELLING PROPERTIES ON LEASE OPTIONS

CHAPTER 12

Finding and Qualifying a Good Tenant-Buyer

Understanding how to screen and select tenant-buyers is the key not only to being a good landlord, but also to the business of selling and using the lease option technique.

A Story About Working with Buyers

A strange thing about prospective tenant-buyers is that you can't always tell who is going to exercise by how well things are going with their tenancy. Some people struggle to pay their rent but end up getting a mortgage on your home, and others pay perfectly and don't end up buying.

I had perfect tenants in an 18-month lease option and everything was going so smoothly I was sure that they were going to exercise the option. Then in month 17, I received a call from the woman, who was crying. She said, "We have a problem. I can't pay my rent next month."

She was sobbing. She and her husband were getting a divorce and she didn't have the money for the rent. She was very embarrassed and wanted to work things out in any way possible. Thinking she

wouldn't be able to stay, I asked if it would be possible to start showing the house right away, and she said, "No problem. By the way, I do have some jewelry. Would you take that in exchange for my rent?"

My ears perked up. "What kind?" I do like jewelry, but really I was thinking, I might not ever get paid this rent, so maybe I might should consider accepting the jewelry.

The woman answered, "Diamonds and emeralds."

I said, "Really? When can I see them?"

She replied, "Well, how about now?"

When I got to her home, I found out it was her anniversary ring and wedding ring. I said, "I can't take those!"

"Really, I want you to have them. I can't pay the rent."

"But what if you reconcile?"

She answered, "We won't," but I said, " You just don't know. I really hope you will."

Now this kind of thing tugs at your heart a bit, so I said, "Tell you what—I'll keep these for you. I'm a free pawn shop. I'll keep them a couple of years, for free. If you ever want them back, just pay that rent—no late fees, nothing. Just take them. I don't want your rings."

The woman responded, "Oh no, I'm not coming back for those."

I protested, "Well you never know. You might work it out. I want you to work it out."

She answered, "No, no, you don't understand. I've been divorced twice now—from *him*."

She never came back for the rings, and I still have them. Maybe one day I'll have them reset for my daughter. The point is that you just never know what you're going to end up with in this business.

Finding the Best Leads for Tenant-Buyers

Finding good tenant-buyers is the key to making the deal successful. There are many ways to find a good buyer for your home. One of the primary ways that I use to market my houses is to advertise in the newspaper.

Try a few different ads. If you get no response, make changes and try again. Know whether you're in a buyer's or seller's market. I have a friend who said in her ad, "Free pizza." So people would call

her up and say, "What's this about free pizza?" and she would answer, "Every month that you pay your rent on time you get a free pizza." It's amazing what people will do for a free pizza.

How to Post a Successful Ad

When you run an ad in the paper, remember that "romance sells." Beautiful sunsets, bring your canoe—think of something short and catchy for the ad, things that might reflect a holiday or time of the year. Or you can push on the credit issues, location, or special features of the property. There are many ways to reach buyers. Try different approaches to see what works for you. If one ad doesn't work, try another; if one paper doesn't work, try another paper.

> Rent with option to buy this 3 bdrm, 1 bath home in Xyz Town near Xxx Park. Large yard and view of lake. $1595/month and $5000 option fee gets you in. Bad credit OK. (111) 222-3333

This is a very basic, generic ad. It should appeal to a broad range of potential buyers.

> Bad credit, no credit, poor credit? We can help. We have homes in this area to help you get your credit reestablished. Own a home soon! Small amount needed to get in. (222) 333-3333

This ad will bring in the buyer with bad credit. We are trying to find someone with poor credit—not a deadbeat, just someone who needs another chance.

> Sunset views with a bottle of wine help you celebrate your new home. Low monthly payments required $1395. Small option fee gets you a new start. Call today (333) 444-5555

This is the romantic type of ad. It is meant to draw in the romantics, young couples, and the like. Each buyer responds to different ads, just like the sellers.

> Buy your family a new home in 20XX! Start out fresh! Own a home now! 3bdrm 2ba in XYX Town with great schools. $995 month and low amount required to get in. Call today. No bank qualifying. (333) 444-6666

This ad is great to run at the end of the year or the beginning of a new year. It is perfect to work on people's New Year's resolutions.

> Stop Renting! Buy Now! We have several homes available with lease option terms. ABC and XYZ Counties. Start building your future today. Homes ranging from $995 to $1995. We can help YOU! (222) 333-4444 www.MajesticRentals.com

This ad contains my company web site, which is always good to put in an ad if you have one. Web sites are one of the cheapest ways to advertise, as I discuss a little later in this chapter.

Note that if you are a Realtor, you must disclose that in your ads.

> Land Contract Wanted? We have a home available on terms. Call for a unique way to buy a home. 3bdrm home in XYZ Town. $1295 month. $3000 gets you in. (222) 333-4444

This is a great ad for parts of the country where the words "Land Contract" are used for seller financing. If your part of the country doesn't use this term, then substitute the words "Seller Financing." This attracts people who don't feel they can get a mortgage. They know they will need the seller to assist them in their financing. We are not going to give them seller financing or a land contract, but we are attracting them with these words. We will discuss with them later that we are doing a lease with an option to buy and that they can clean up their credit to get a mortgage during this time period.

Referrals from Realtors

You can also get Realtors to refer buyers to you. Realtors usually only work with buyers who can get a mortgage today and can go purchase a home from them. If they don't have a preapproval letter, then they basically throw the buyer's name away. I created a letter with the heading "A Piece of Garbage or $1,000?" The offer in this letter could be $500 or more than $1,000. The intention is to get Realtors to give you the names and numbers of the people who come through their doors that they can't help—people who can't go buy a home traditionally through their office. If they refer them to me and they buy a home using a lease with an option from me, then I will give the referring Realtor the amount stated in the letter when the buyer moves into one of my homes. You can also entice Realtors by offering them more on the back end if the person actually buys the home down the road. Realtors have leads on lots of these types of buyers. If you can't find them yourself, or if you need more, then consider offering to pay more. These are also the Realtors I work with when finding sellers. Now you can see how powerful it can be to work with Realtors. They can bring you sellers *and* they can bring you buyers.

Web Sites

A web site is one of the best ways to show your prospects the details of how options work, but also the details of a particular home. Your web site can also be a place where you show all of your properties, when you have several to offer. It is an inexpensive way to advertise your homes. I am not a technical person, nor do I want to be one. You can buy a web address for a low annual fee and hire high school or college kids to get a web site set up for you. They are not expensive, yet they can provide the viewers with a lot of information on your homes and services that you can't afford to print in a newspaper. Most people have access to the Internet and have an e-mail account, so you have a huge potential audience.

Signs

Post signs in front of your homes that say "Lease to Own," "Rent Option," "Lease or Buy," and so on. Also, if you have a rental home that is on a busy street or on a corner lot, write into the lease with that tenant a clause that allows you to put a sign out front to draw in tenants for other homes you have. Signs in front of homes do bring in calls for that home or for others.

Referrals from Tenants

Offer your current tenant-buyers free rent or option credit if they refer a friend who lease options from you. I prefer the option credit, because it is not cash out of my pocket and it entices them to purchase the home. If they don't purchase it costs me nothing; if they do, it comes out of my pocket later.

There are many other ways to find tenant-buyers, so experiment and see what works best for you.

Types of Tenant-Buyers and Their Credit Situations

People can have many types of credit situations. The four types I discuss here are (1) good, (2) deadbeats, (3) Bad with reason, and (4) unknown.

When a person has perfect or good credit, they don't need to consider a lease option. This technique is not necessary in order to buy a home. People with good credit can work with a Realtor and buy any home they can afford. They can also find a home for sale by owner and work directly with a mortgage broker to get a loan. They have many choices, so they don't need this technique.

The opposite of good is bad. Deadbeats are those who have poor credit and no excuse for it. They have the money but they just choose not to pay their bills on time or at all. They tend to be poor money managers, or they are lazy and don't want to work to pay minimal bills. These are not the type of buyers you want in your home. They need to make habit and lifestyle changes, and you will not be the one to make it happen. Deadbeats are deadbeats—you don't need them!

Then there are the people who have poor credit for a reason. They are good people to whom something bad happened. Bad credit can result from many different situations including loss of job, divorce, medical problems with no medical insurance, disabilities, and so forth. These individuals have hit bottom financially and are on their way up again. They have improved their situation, but not enough to go and buy a home yet. These are the types of buyers you will want buying your lease option homes.

Bankruptcies are at an all-time high in our country, according to www.uscourts.gov/bnkrpctystats/statistics.htm. When people file for bankruptcy they may not be able to get a mortgage for several years after the discharge. People with collections or late pays on their credit report need time to heal these situations. Many people don't want to wait until they can qualify for a mortgage. This situation makes the selling of lease options an opportunity for us real estate investors. People want to buy now but can't. They are willing to pay more for a home on an option and have it now than to wait and save money. It is the common "we want it now" mentality.

There are two things many people ask themselves when buying a car: how much down and how much per month? If those two things fit in the budget, then they buy the car. Whether the price of the car is $28,000 or $26,000 is irrelevant. It's the same way with homes: The end price is not as important as the terms. Lease options give terms to people with less than perfect credit.

The people that fall into the "unknown" category need to be evaluated more carefully. They have poor credit but it is unknown as to

whether they have improved their situation. The credit is still bad, but there is a reason. I recommend you stay away from those people or have a lender evaluate them first. If a lender can't tell you that they are improving and will have a chance to get a mortgage, put them on hold. Wait a few months and then reevaluate their situation to see if it has improved or changed. We want the people who simply had something bad happen to them and are on their way to repair and improvement.

Qualifying the Good Buyer

When you run a credit check, you are looking for someone who had a blip in their credit and now they are on their way to financial stability. When you look at someone's credit record, see if they are on their way up or not. Notice what they have paid recently and what is still behind—this will show up on their credit report. Learn to read credit reports and get set up on a reporting system that works for you. If you don't know which system to use, talk to others in your real estate investors group. They will know which companies provide which services in your area. You can also work with a mortgage broker to run credit and do the lease option approvals.

Your Standards

It is a federal law requirement that landlords put their rental standards in writing. If you don't have your standards in writing (and, unfortunately, few landlords do), you are liable to end up in a pickle if someone accuses you of violating this rule. Your standards do not have to be complex but should be able to be produced if someone at a local or federal agency, or anyone off the street, requests a copy of them.

Written standards can be as simple as this:

Qualifications for Tenant Selection for Majestic Realty, LLC—Lease Options

- No landlord tenant judgments unpaid.
- Ability to pay all outstanding judgments/collections.
- Good landlord reference.

- Gross monthly income equal to three times monthly rental rate.
- If any bankruptcy, it must be discharged.
- Option fee available or must be negotiated/financed.
- Prefer they have spoken with a mortgage representative.

On my lease option standards I don't put a credit score, but I do state that if they have a bankruptcy it must be discharged. I also don't put length of employment, but you can. These are only my standards for lease options—my standards for my regular rentals are stricter. You must establish your standards and they must be in writing.

Screening a Good Buyer

Screening a buyer is extremely important, and yet some of us investors still go by instinct or illegal decisions.

"We liked them," some investors will say to me. We want to buy from sellers that "like" us, but we can't sell that way. There are too many good liars in the world. You may feel you can read people, but relying on your gut feel will set you up for a rude awakening. Many of my worst situations arose from my own desire to believe in people. We should all screen people as if we were blind and deaf. Then we would screen them strictly on the facts and not our opinions or prejudices.

Screen a tenant by reviewing their application thoroughly. Check it for accuracy and make sure they did not lie to you. If someone lies to me, they are denied the occupancy. Check their name—get a copy of their driver's license. Check their landlord history. The current landlord may want to get rid of them, but the previous landlord has nothing to hide. Call them both. Confirm it is the real landlord in one of two ways: check it on county records, or call the person and mention a different amount of rent than on the rental application. For example: "Hi, my name is Wendy, and I'm calling for a reference on your tenant named Joe Smith. Can you tell me how long he has rented from you? How does he keep your home? Has he been a good tenant? Would you rent to him again? Also, I see he pays you $900 per month, right?" Actually the application says $700 or something else. If this is Joe's friend, he will say, "Yes, that is right, $900 per month."

If it is the real landlord he will correct it: "No, Joe only pays $700. Did he say he paid $900?" Then I say, "Oh, no I see you are right. It does say $700—I misread it. Thanks so much for your information."

Check their employment, too. I use the same technique when I verify their income as I do their rental amount. When I contact the employer I say "Joe put on his application that he is making $16 per hour—is this correct?" when he actually put $12 per hour. If the person you reached is his employer and not his buddy, they will correct you on this one. On occasion I will also ask the applicant for recent pay stubs to put in the file. This information is also handy to have in case you ever have to garnish wages. Be sure to verify hours they work and time on the job as well. Also check their banking information—you might need it later.

Know What Are Reasonable and Unreasonable Expectations

Many of my tenants have pets, and most of them smoke. For this reason I never say "No smoking" and "No pets" because I wouldn't have many tenants. Smoking and pets don't make people bad prospective tenants. However, here are some things to look for on their application that are potential smoking guns for bad tenants:

- Why did they move? When prospective tenants say they had a "bad landlord" before, it puts up a red flag for me. I know there are bad landlords out there, but the red flag it raises is that they are blaming someone else for their problems. So I look further to see if there are other instances of blaming. If their business went into foreclosure, are they blaming their accountant? If they have tax liens, are they blaming the IRS? Be especially watchful for the blame game.
- How long have they had their current job, and how long did they have their previous jobs? What salary are they currently making? If they haven't been employed very long in their current situation, call their current employer to get an employment verification. Get the verification from an executive in the company or from the CPA/accountant. Do not get it from the receptionist! Get the start date of employment as well as the current salary.

The Credit Report

Run a credit report and see what's going on with their debts. Some people may have medical issues that have caused their current financial difficulties, but most mortgage brokers will overlook these. What is more important are repossessions, foreclosures, bad credit card debt, judgments from landlords, and the like. If they have a string of bad debts, you could be the next bead on that string.

The credit reports I receive have bad debts shaded and good debts in white. I like to see a lot of white on the page. Too much shading indicates a lot of current and potential future problems. Do they have frauds on their report? Do they have bankruptcies on their report? This is not necessarily a deal breaker, as bankruptcies can happen to even the best people and can sometimes be out of their control. However, the important question is, what are they doing to repair the bankruptcy?

Criminal Background Check

I don't run criminal background checks, even when the tenant looks like what I would consider to be a criminal. If you do one, you must do them for all prospective tenants.

I remember when one of the first homes I ever bought was up for rent. Two rough-looking guys on Harley Davidson motorcycles drove up right onto the lawn and wanted me to show it to them. I was just 21 years old and feeling a little intimidated by these big, scary guys. They ended up renting the house, however, and they paid their rent perfectly and on time every month, as well as leaving the house better than when they rented it. Looks simply don't count. You must turn a blind eye and only focus on the qualifications on paper. In that spirit, you should also be thoroughly versed in the current fair housing laws.

What You Should Know About Fair Housing Laws

Fair housing laws could be the subject of an entire seminar. Realtors around the country have half- to full-day training sessions on this topic alone, because fair housing rights, when violated, can cost the violators hundreds of thousands of dollars. This is not an area where you want to mess up.

The bottom line is this: Select a tenant on their application alone and nothing else. There are federally protected areas and there may be some state protected categories also. Each state has its own protected areas, so check with your state for the details. Your local real estate investors group can help point you in the right direction. The simplest way to be safe is to refrain from judging anyone by the way they look or talk. This is why I say that we should be blind and deaf when selecting a tenant. If we evaluate on the application process alone, we will stay out of trouble. Make the selection based on the facts, not on gut feelings or instincts. Stick with the law and you will be safe.

Some federal and state protected categories include (but may not be limited to):

- Religion.
- Race.
- Nationality.
- Sex.
- National origin.
- Color.
- Sexual preference.
- Marital status.
- Age.
- Weight/height.
- Familial status. While you can't ask potential tenants how many children they have, you can ask how many people total will be residing in the home. You don't have to rent your two-bedroom home to a family of nine.
- Mental and/or physical handicap.

Be extremely careful with this area of federal and state law. Even an inadvertent misstep can haunt your career for a long time.

Rejecting a Rental Applicant

If you reject someone's application, you have to tell them why you rejected them in writing, and there is no need to obscure your reasons.

Be honest but be kind. Let them know that if they can clean up some of their credit difficulties, you may be able to help them in the future. If you feel inclined, you might even suggest they talk to a lender or financial counselor about how they can get their credit report into a more favorable position.

Buyer's Objections

Although tenant-buyers will rarely have any objections to renting from you, there are a few that may come up. You will need to know some ways to handle these objections and what you can say to your tenant-buyers. Here are two of the most common:

1. *What happens to my option money if I don't buy this home?* Answer: "It's nonrefundable. This house is going off the market during the option period, so there's a fee for that. We are providing a service, and for this service there is a fee. If you are not sure you want to buy this home, you should not put an option fee down. You should rent from someone else. We want to rent this home to someone who wants to buy it in the future. You do want to buy one day, don't you?"
2. *What if I can't get a mortgage?* Answer: "Then you would lose your right to buy this home. We do have the right to extend or give you another chance to buy this home, but at this point we are not guaranteeing anything. If the market goes up, we also might increase the price of the home. We are only fixing the price and terms during the time period we have signed here today. You should talk to a mortgage broker before you sign any contracts. It is usually a requirement of all lenders that the applicant pay off judgments, liens, and collections before they can qualify for a mortgage."

I don't want the potential tenant to delay making a decision, so I always say that I have other people looking and that my ad is still running, so they need to decide what they're going to do and how interested they really are. After all, they are the ones in need, not me.

There are times when you will find the buyer does not have the full amount to put down on the option fee. Be creative with the option

fees. I've taken two mobile homes in trade for option fees. I'm not in the mobile home business and I hate them, but it got the deal through! You can also work on monthly payments with them. You can take an extra $200 per month toward the option fee until it is paid in full; however, you should always get more up front than what you would have received if you were getting a security deposit. Don't ever do less than that.

Once you have your terms determined and your good tenant selected, you must get the paperwork ready and signed. Get them locked in and set for the move-in date!

CHAPTER 13

Getting the Paperwork Ready for the Tenant-Buyer

Approved!

Once you have approved a tenant for your lease option home; all you have to do is draft the paperwork and have them sign it all. You need not give more than 12 to 18 months to the buyer on an option. This time frame is most often enough for a good option tenant to get a mortgage. For you, there is a benefit in keeping it short-term in appreciating markets; or if you want them to cash you out. Whatever appreciation is written into the contract is what you have to honor, regardless of whether the market is higher. Additionally, appraisers have a 5 to 10 percent leeway on appraisals. While I could structure a long-term option deal that said the value of the mortgage would be dependent on the appreciation growth rate, by whose appraisal would it be valid? If it's my appraiser, the buyer may feel taken advantage of, and if it's the buyer's appraiser, the appraisal might be too low. So keep the term short and avoid problems.

If at the end of the time period your buyer wants to extend, you can do so at your discretion. This can also be an opportunity to renegotiate. If the homes in that area have appreciated more than you expected, then you would want to extend, but increase the purchase

price somewhat. You could also ask for another $500 to $3,000 option fee for the convenience of extending the option. Finally, you could raise the rent slightly. Sometimes I have given my tenants an extension for free, because of certain circumstances. There are also times when I have said no.

You can't predict what the market will be like in the future, so getting further out than 12 to 18 months can be more risky for you, and you forfeit your ability to sell the property outright at the end of the option.

If it is more than a few days between the end of the option and the day they plan to move into the home, your best bet is to get a nonrefundable deposit from them to hold the home until the move-in date. This protects you from them changing their minds at the last minute. A personal check at this time is okay if it has time to clear before the move-in date. Make a photocopy of the check to get their bank account information. If they end up ditching the home and owing you money, you will know where to garnish their bank account (available in most states).

Have all the forms printed and ready to go. Get the tenant to sign early if possible. Depending on how busy you both are, try to get all the forms signed after they give you the deposit.

When you are working with the buyer, you are the landlord to them. You are also the seller, as far as they are concerned, because you have set the terms for the sale including the option fee, the monthly payment, and the sale price. You need to use pro-seller forms. These are forms that specifically favor your end of the deal as the seller.

At the beginning of this deal you have either optioned the home from the seller and have in turn optioned it to a tenant-buyer or you own the home outright. As with the purchase process, it's helpful to use a checklist to make sure you don't miss any steps.

Selling on an Option—Checklist

Address: ______________________
Move-in date: ____________________
Seller name: ____________________
Phone: ______________________

1. Advertise home ____
2. Get application fee ____
3. Get application ____
4. Confirm applicant meets criteria ____
5. If not, send rejection letter ____
6. Get nonrefundable deposit and nonrefundable deposit form if accepted ____
7. Create tenant folder ____
8. Draft contracts ____
9. Videotape home or take pictures ____
10. Get check-in/out list ____
11. Sign contracts ____
12. Sign the lead-based paint disclosure ____
13. Sign the seller's disclosure ____
14. Cancel advertising ____
15. Confirm utilities in their name: Water ____ Gas ____ Electric ____
    Water Softener ____ Other ____
16. Confirm check-in/out returned ____
17. Confirm they have renter's insurance ____
18. Remove sign and lockbox ____
19. Make a copy of tenant's check for tenant file ____

Some of the checklist items will be self-explanatory, but let's look at each of them.

1. *Advertise the Home*. This is discussed in Chapter 12.

2. *Get Application Fee*. You decide how much. I charge $20 per person over 18 years old.

3. *Get Application*. Make sure they fill out all areas of the application completely. My application requests information on each applicant over the age of 18, even if they are not working. It asks for their driver's license number, Social Security number, employment information, banking information, landlord or current address information, and previous landlord information. The more information you can gather, the better off you will be if you ever need it. It is not so much needed for your evaluation, because that is done on the standards you have set in Chapter 12, but if you ever have a problem with a tenant and need to collect from them you will want complete information on this application. Make sure it is completely filled out and signed by all parties.

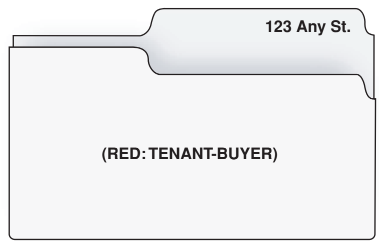
4. *Confirm Applicant Meets Criteria*. See your standards from Chapter 12—this is a simple yes or no.

5. *If Not, Send Rejection Letter*. A rejection notice is required by law whenever anyone applies for credit or a place to live and is turned down. You must specify why someone is not accepted, whether it be landlord history, income status, credit issues, or anything else not federally protected by law. You must be specific.

6. *Get Nonrefundable Deposit and Nonrefundable Deposit Form If Accepted*. Once someone has decided they want to move into one of your homes but they don't plan to move in for a couple of weeks, be sure to get a nonrefundable deposit. This is separate from an option, but it will be applied toward their option later. The nonrefundable deposit holds the property for them and demonstrates their intent to rent it. Later if they don't sign their contracts or move in, they would lose this deposit.

7. *Create Tenant Folder*. This will be a right-tabbed red folder. I call this the tenant folder, whereas the green ones are for the owners. I use legal size, half-tab folders and put the address on a white label with a red strip above the address; you could also write the address in

red or green. All information about the tenant and their contracts and correspondence will go into this folder.



8. *Draft Contracts*. Draft the rental agreement, option agreement, offer to purchase, pet agreement (if applicable), lead-based paint disclosure, and seller's disclosure, and any other state required forms.

9. *Videotape Home or Take Pictures*. Do this with the tenant if possible. I suggest that you take a video camera with you when you are showing prospective buyers the home. Say things on the video like "Marie, what do you think about the kitchen cabinets? What do you think about the bathroom tile? What do you think about the closet doors?" and have the date recorded on the video to prove everything. Then Marie can't come back later and say, "Those kitchen cabinets were trashed" when she said on the video that they were fine. Any pictures that you take should be kept on a CD in the tenant file for that house. After I take digital pictures of the home, inside and out, I put the CD into a CD holder inside their file. Those pictures are to protect me later if they don't buy the home and have done damage to it.

10. *Give Check-in/out List to Tenant-Buyer*. The check-in/out list is a form the tenant can fill out to evaluate the condition of the home when they move in. This gives a baseline of the home and its condition. It is to protect you both in the event that they don't purchase the home and they decide to move out. It will spell out the condition of the home at the time when they moved in. Each state has different requirements as to what judges will require and allow, but the more you can show on the condition, the better off you will be if you are trying to collect on damages the tenant has done. Go overboard versus "underboard" on documentation and pictures. You

hope you will never need them, but if you do, you will be glad you have them.

11. *Sign Contracts*. The buyer must sign each of the contracts with you. If, however, they have already paid their nonrefundable deposit, I will allow them to take the contracts and review them. They must sign before they move in.

12. *Sign the Lead-Based Paint Disclosure*. See Chapter 7 for more detail. However, you can create a new one that is blank and says you don't know anything about lead in the home, if this is true, and sign it. You can also attach the previous owner's lead-based paint disclosure and have the tenant-buyer initial it to acknowledge they have seen it. This disclosure is required by federal law.

13. *Sign the Seller's Disclosure*. If this is the first time you have rented this home, you may not know much about it, so you can write on the seller's disclosure that you have never lived in the home and that the buyer should do their own inspection. Add that the home is being sold "as is." However, I also recommend that you attach a copy of the previous seller's disclosure to yours and have the tenant initial it. After all, you do know what the seller disclosed to you, and you need to disclose everything you know. Also, if you have had it awhile and the roof has leaked, you must disclose that, even if you fixed it. Don't skimp on this crucial step. Many lawsuits are filed because sellers *knew* about problems and didn't disclose them. If you had a leaking basement and fixed it, you need to put that on the seller's disclosure. It won't stop anyone from buying the home if it was fixed, but if it leaks later and they find out it wasn't disclosed, you will be fixing it again; if it was disclosed, they will be the ones fixing it.

14. *Cancel Advertising*. Cancel any advertising you have been doing for this home. Sounds simple, but it can be expensive. I have forgotten to do this, and it can cut into your profit if this is not on your checklists.

15. *Confirm Utilities Are On*. Once the tenant has moved in, make sure they have transferred the utilities into their name, including gas, water, electricity, and water softener.

16. *Confirm Check-in/out Returned*. Make sure you follow up and get this form returned from your tenant-buyer. If there is anything on the check-in/out list that needs to be addressed, take care of it.

17. *Confirm They Have Renters Insurance*. If not, continue to follow up in writing with them and put a copy of each request in their tenant folder. It probably won't be a make or break for you, but if something were to happen to their personal belongings, for instance, you will have all the proof you need that you tried and tried to protect them, but they failed to protect themselves.

18. *Remove Sign and Lockbox*.

19. *Make a Copy of Tenant's Check for Tenant File*. You might need this later if you need to garnish their bank account, if they are a good tenant who turns bad.

Always Check Your Paperwork!

My partner, Debbie, and I purchased a property on Newman Street. The little house had 900 square feet with a walk-out basement to Paint Creek. The owner was an older woman who had split the lot, and a developer was going to build a home on the vacant part. The vacant lot was the same size as the one with the house. When we bought the property, I knew up front that the owner was going to sell the vacant part to a developer. We lease optioned the house to a couple who gave $5,000. As happens many times, everything was going perfectly and it seemed like they were going to exercise the option. Sixteen months or so into the lease option, the couple called me and insisted, "You have to sell us the other property too."

When the couple first signed the lease option, I had physically walked the property with them and showed them what Debbie and I owned and what we didn't own, including the fact that we did not own the undeveloped part. They still said, "You have to sell it to us."

Standing firm, I reiterated that only the house and the property it sat on were included in the lease option, not the vacant split property.

At the end of their 18-month option they not only didn't exercise the option but they stayed on an additional three weeks without paying and then moved out. I sued them for $900 for unpaid rent. They countersued for the refund of the lease option money, again insisting that it was their right to buy the entire property. It cost me $1,500 in legal fees but the judge awarded me their $900 in unpaid rent. The couple still refused to pay the rent and it ended up being scheduled

with a mediator. Then the day before the mediation for $900, the couple called and paid it. End of story? No!

Two weeks later I got a call from the woman we bought it from, who said, "We've got a problem. You own my vacant lot." It turns out that when I bought it from the seller through Century 21 and the title company, both parts of the property had been deeded to us, although the vacant part was not supposed to have been deeded. We actually *did* own both parts of the property, just as the wife had insisted, and if they had actually exercised their option, they would have owned both parts. It turns out the wife worked for a mortgage company and had probably checked and thus, understandably, thought I was lying about not owning the other part of the property even though I honestly thought Debbie and I only owned half. I had taken the deed I received from closing, copied the legal description for the entire parcel, and put it right on my copy to her. After the case was settled, I deeded the vacant part back to the original owner. The moral of this story is to always check your paperwork, especially legal documents!

What You Need to Know about the Three Essential Contracts

Each state may require certain information for rental and purchase agreements. My contracts are generic enough to use everywhere, but they should still be reviewed by an attorney in your state. Each state also has its own landlord, tenant, and security deposit laws. Therefore, as recommended in Chapter 7, you should seek the advice of an attorney if you are using any generic contracts for your state to buy, sell, or lease real estate. I recommend Pre-Paid Legal attorneys at www.prepaidlegal.com/hub/wendypatton. They have plans starting at very reasonable rates per month to give you legal assistance. I have been a customer since 1988 and have saved thousands of dollars on legal questions, contract reviews, letters, and so on, for real estate matters and in multiple states. Each state has its own rules and regulations regarding rentals, lead-based paint abatement, evictions, and so forth. There are so many more clauses when you are selling, especially the rental agreement, because there are so many more things you will need to do to protect yourself. When you are buying, the

rental agreement is very short; when you are selling it is very long. Here are some of the clauses that have been my favorites over the years in my contracts to sell on lease options:

- *The option agreement:* On the buying side, the option agreement turns control of the property over to the optionee without ownership. When I am doing a lease option, I sign an option with the buyer. I control the property as if I owned it, but I am giving them the right to buy upon exercising the terms of the option, usually in 12 to 18 months.
- *The rental agreement:* The rental agreement specifies how long the tenant will rent the home and how much they will pay each month in rent to me. During the rental period they can purchase the home, unless otherwise specified. A rental agreement also comes in handy if ever taken to court, so that no matter what the tenant has put into the property, the judge will let me evict if necessary rather than foreclose.
- *The purchase agreement:* This agreement sets the terms of the final sale. Again, there are two of these—one for my deal with the buyer, and one for my deal with the tenant-buyer. The deal with the buyer sets the sale price upon exercising of the option. On the tenant side, the contract also has a specific sales price, and because you set the terms of the lease option, that price will be higher than the price you have with the seller.

Points to Consider for the Option Agreement

It is important to get the optionee to be as responsible for the maintenance and well-being of the house and property as possible so that you are not tied down with constant maintenance. Here are some points in my option agreement:

- Optionee agrees to accept the property in "as is" condition.
- Optionee agrees to make all repairs major and minor to the property.
- If the optionor has to make any repairs to the property, the cost of the repairs will be added to the purchase price. (If someone's water heater or furnace goes out and the tenant can't afford to

fix it, you should go ahead and pay for the repairs. In Michigan, you just can't go without heat in the dead of winter.)

- If there is a septic system, the optionee agrees to have it pumped once per year.
- If there is a pool, optionee agrees to open and close the pool each year and to maintain the pool.
- Optionee should pay for all additional assessments, including water, sewage, sidewalks, and road paving.
- The option can become void if the optionee pays their rental payment or any option payment more than 10 days late. (It is important to remind your tenants that their record of payments will have to be submitted to the mortgage company and may damage their ability to secure a mortgage. So, if they're serious about owning the home, they need to be serious about paying on time.)
- If the option is voided for any reason, then the contract becomes a month-to-month rental-only agreement (so that I can take steps to resell the property if I choose to).
- Optionee agrees not to record anything against the title of the property. (In other words, the tenant cannot file a Memorandum on the property. The memorandum is used only when you purchase, not sell.)
- Optionee understands that optionor does not hold title (own) this property, but is transferring their interest in the property. If optionor can't transfer title due to something out of their control (i.e., owner refuses to close or can't transfer clear title), optionor will reimburse optionee the entire option consideration plus an additional $500 for their inconvenience, as full and complete liquidated damages for optionor not being able to close on this property.
- *Equitable mortgage:* This Option to Purchase is not, and shall not be construed as, or interpreted as any form of equitable mortgage. It is hereby declared that it is not the intent of the parties to create a loan of any nature or to create a mortgage of any kind. In the event that the optionee hereunder should ever raise such an issue in a court of law or otherwise this Option shall terminate immediately.

- Optionor has advised the optionee to seek the advice of a mortgage lender and attorney prior to signing this document. (The mortgage broker might look at their credit and their history and tell them that even with an 18-month option they will not be able to clean up their history enough to qualify for a mortgage. They should also always have a lawyer look over any type of document that commits them to an agreement. In my experience, most people talk to neither, but they sign the document saying that they have.)

Points to Consider for the Rental Agreement

The rental agreement gives the tenant the right to occupy the property during a specified time period. It is similar to the rental agreement you signed with the owner/seller, except obviously your rental agreement with the tenant will be very pro-landlord (pro-you).

The rental agreement needs to be separate only for selling on an option. If you are the buyer, you certainly can put them into one document, but when turning the option around, you'll want to use the three different documents. The reason is that if the tenant doesn't pay, or the deal goes south, you will want to be able to evict them as quickly as your state allows. If you have all three agreements in one contract, some judges will look at the lease option as a sale rather than a lease, and therefore make you go through a full foreclosure or forfeiture process versus an eviction. This will take much longer, be more expensive, and may require an attorney.

Anyone who will be residing on the property over the legal age must sign the rental agreement. This includes children of legal age (determined by the state).

A cosigner can be an important safeguard if you have a weak applicant and they have a strong parent or friend who is willing to sign with them on their rental agreement. It works well for giving liability to someone else who will come through with the payments. I have a situation where a mother cosigned for her daughter. It was just a rental but the daughter had terrible credit. The mother, however, had worked for General Motors for 25 to 30 years and made a good guarantee person for me. The daughter stuck me for nearly $5,000 in unpaid rent and damages, and now the mother is paying for it out of her GM checks. In another case, the mother was a local Realtor in Michigan, and she asked

me to help her daughter get a house. Her daughter had been through a rough time, and the mother was willing to cosign. I probably didn't even run the daughter's credit because I knew the mother was a well-known Realtor and was good for whatever might happen. The mother paid the $5,000 option fee, and the rent was $1,300. Eventually the daughter left, owing me $3,000 in unpaid rent, and the mom had to pay it off.

I like to make all rent due on the first day of the month. If a tenant moves in on the seventh, I prorate the rent for the month. My rental agreements specify late fees of $25 for the first day late and $5 per day afterwards, and the tenant, of course, must sign the agreement to this. I can't reiterate enough how necessary it is to have everything in writing, spelled out in detail. That way your tenant can't say, "I never agreed to that." All you have to do is point to the contract and say, "Here it is in black and white, and there's your signature underneath it." I also like to add an incentive to encourage my tenants to pay on the first of the month. My contracts state that if they make their monthly payments on time, including any unpaid option fees, then I will credit them with $100 towards the purchase price of the house.

Your other fees on the property can include a pet deposit, security deposit, cleaning fees, and the like. In a lease option, I usually do not require a security deposit, because if they have an extra $1,500 for a security deposit, which is refundable, I'd rather have them apply that to the option fee, which is nonrefundable. There are some good reasons and areas of the country where even a small security deposit is recommended. It gives the tenant something they can get back if they don't purchase. Some judges like a small amount showing as a security deposit. None of the option fees, however, show up on the rental agreement, as the option agreement is a separate document.

Your rental agreement should state the total cost to move in. For example, if there are fees, you will add them to the first month's rent to get the total for the rental agreement, but that is not the total overall cost since you also need to add in any security deposit. The rental fees plus the security deposit make up the total move-in costs. The rental agreement must also show the total amount of anticipated rent for the contracted period, including prorated months.

You can also state in the agreement that if the rent is more than 10 days late, the agreement may revert to a month-to-month rental (nullifying the option) at the discretion of the landlord. I generally don't do this unless I want to get rid of the tenant, because when this alterna-

tive plan is set in motion it allows the tenant to move out at any time. Be sure your rental agreement states that the keys are due back within 24 hours if the tenant does not exercise the option and/or moves out.

Payments should be postmarked by the post office rather than a Pitney Bowes machine, as these machines can have their dates changed. In my rental contracts I also specify that any bounced checks are subject to an additional fee. Although I start out trusting my tenants and allowing them to pay with personal checks, if one check bounces, all payments after that must be paid in certified funds or bank checks only. I also tell them that if their rent is late twice within a 12-month period, their monthly rent will increase by $25 per month.

You should specify to the tenant how their payments will be applied, and in what order:

1. Outstanding dishonored check fees.
2. Outstanding late fees chargeable to tenant.
3. Outstanding legal fees, court costs or both.
4. Outstanding utility bills that are the tenant's responsibility.
5. Any damage caused by tenant.
6. Collection agency fees.
7. Costs for re-letting the property, if applicable.
8. Option fees owed.
9. Rent.

You should apply their payment toward rent last because it is easier to evict on unpaid rent than on unpaid utilities. So use their money to pay for unpaid utilities, and if the rest doesn't cover the rent, you can begin eviction proceedings in most states. Again, check with your local investor group or a local real estate attorney on landlord eviction laws.

Additional Issues to Cover in Your Rental Contract

Occupancy The contract needs to specify that the premises will be used as a residence with a specified number of adults and children. The premises will be used for no other purpose without written permission by the owner. Having any guest staying more than 14 days

will be considered a breach of the agreement unless the resident tenant receives written consent from the landlord. I also don't allow them to use the premises for a home business without my permission. A lot of people have home-based businesses, and that's not a concern except if they have customers coming in and out of the home, which creates a potential liability issue. So check with your tenant to see what kind of home-based business they will have.

Pets I make sure that they sign an agreement with me about having pets on the premises. I need to know, for example, if they have pit bulls or any other potentially dangerous animals on the property. It doesn't matter to me if they do have pets, and in fact almost all of my tenants have pets—I just need to know about it.

Entry and Inspection This gives you the right to enter the property at reasonable times and with reasonable notice to inspect the premises. It's not that you are inspecting their personal lives but that you want to make sure the home and property, which do not yet legally belong to the tenant, are maintained in accordance with the rental agreement. You also may want to show the home to prospective new tenants or buyers. If the tenant decides not to exercise, you want to have the right to affix "for sale" signs on the front lawn, but you shouldn't even step onto the lawn without calling the tenant first. This is violating their rights to peaceful enjoyment.

Assignment and Subletting I do not let my tenants sublet or rent any portion of the premises without my prior consent. The subletter's name is not on the rental agreement.

Joint and Several Liability Anyone who signs the contract is 100 percent responsible for all the points within the contract up to the total amount due. I had three men who signed the agreement and all three split later. I was only able to find one of them and I told him he was 100 percent responsible to fulfill the agreement. He felt he should only be responsible for one-third, but this inclusion of joint and several liability protects the landlord from having to find all the tenants. If one can be found, that one is 100 percent responsible.

Maintenance, Repairs, and Alterations It is the tenant's responsibility at all times to maintain the residence and property in a clean and san-

itary manner including fixtures, equipment, appliances, furniture, and all other furnishings. If they should choose not to exercise the option, the residence should be left in the same condition as originally rented, normal wear and tear excepted. Residents are responsible for changing the furnace filters and the batteries in the smoke detectors on a regular basis. Residents should be responsible for the maintenance of the property and the house costs. The tenant cannot make major changes to the structure until he owns the property. I had one resident who tore off an upper decking because he decided he didn't want it, and I had to pay for it and then rebill him because I didn't own that house. The resident also cannot paint, hang wallpaper, or make any other changes without my consent. I had one tenant who repainted the inside of the home navy blue, and then left after two months. I had to sue to recoup my costs for repainting the home. Residents must also be responsible for the cleaning of sewers and drains that have become blocked due to their negligence in keeping them cleaned.

If the resident damages any windows or doors, it is their responsibility to replace those items immediately. If the resident hasn't repaired the items within seven days, I will replace the items and charge the resident for the repairs, and these costs will be due immediately. I tell my tenants that any repair under $10 must be reported to me and any repair over $10 must be approved in writing. In other words, they don't have an open checkbook to make any repairs they want. Make sure your tenant also doesn't run off and do repairs and then bill you for them, such as "My furnace went out and I paid the guy $200 to fix it." My furnace company might only charge $100. Also, the tenant may then try to take that repair bill and apply it against their rent. Make it very clear to the tenant that *no* repairs can be made without your consent if the repairs are over $10.

Appliances One of the things I list on the contract is all the appliances already in the home. I make it clear to the tenant that all the appliances in the home are there for my convenience—in other words, they belong to me. If, therefore, one of the appliances stops working and they dispose of it without telling me and then leave the home with that appliance missing, I will bill them for it. If they want to remove the appliance, I have to agree to it and I will cross it off their rental agreement with my initials and the date.

Ordinances and Statutes The tenant must abide by local zoning laws for usage of the property. For example, they can't run a day care business at the home if it isn't zoned that way (not to mention the excessive liability that would incur). A home-based business of web site design, however, violates no zoning laws anywhere in the country. You have the right, as the landlord, to evict immediately for any illegal operations on the premises—for example, drug usage or manufacturing.

Liability of the Tenant The resident is responsible for any personal injury or property damage caused by the resident or tenant or the tenant's visitors. The tenant is also responsible for damage due to negligence in caring for the property. If there is a fire, however, and all the tenant's property is lost, the owner is not responsible to pay for that since the tenant carries his own renter's insurance for just such an event. The tenant must keep all the sidewalks clear and clean, all access to the home free and clear, and should maintain the outside premises to be a safe environment.

Insurance Coverage Because the owner's policy does not cover the belongings of the tenant, the owner requires the tenant to carry their own insurance against the risk of damage to their personal property. This insurance must be in place before the tenant moves in.

Defaults—Landlord Remedies Let the tenant know that failure to comply with even one part of the agreement will constitute a default of the entire agreement. This means that the owner can immediately repossess the property.

Attorney Fees In the event that either party has to take legal action to enforce the terms of the contract, the owner will be allowed to recoup all attorney fees permitted by law.

Security Deposit Act Make sure that the Security Deposit Act (SDA) of your own state is in your rental contract. The SDA varies by state, and you must know what the rules are for your state. You are the one providing the contract, so you are responsible for that information.

Notices Any notices must be in writing for your own protection, and not verbal. Notices should be sent to the residence address. If the ten-

ant is sending you a notice, it should be sent to the address specified in the contract (either office or post office box).

Waiver Failure of the owner to enforce any part of the contract will not constitute a waiver of the contract. For example, if I waive the late fee one month, that doesn't negate my right to enforce it the next month.

Holding Over The tenant must give a 30-day written notice of intent to vacate the property.

Additional Terms and Conditions Some further things you may want to add to your contract include:

- Vehicle limit.
- No motorcycles (some can violate the city noise ordinance).
- No working on the car on the premises. All repair work is to be done off site.
- No permanent stickers on the bathtub, and only nonabrasive cleaners to be used on the tub.
- No carpet cleaners will be used without landlord permission. The reason for this is that some of the over-the-counter cleaning solutions can actually bleach the carpet and leave a white spot.

Make Sure Your Tenants Read and Understand the Agreement

It is very important that you go through the contract line by line with the tenant so that they have heard everything out loud and are fully responsible for the contents when they sign their name. Don't skip over any points of your contract, even if they begin to fidget because it takes a while. You might also ask after each point, "Do you have any questions about that?" If they want to take the contract with them, then that is okay also.

Purchase Agreement—Offer to Purchase

The offer to purchase should be pro-seller. Some things to consider when drafting the purchase agreement include:

- What items that were in the house will remain with the house (for example, appliances)?

- If they get an FHA or other government mortgage, the lender might stipulate improvements to the property before the loan goes through. I don't want to be responsible for that, so I say clearly in my contract that the tenant is responsible for any requirements needed to fulfill their own mortgage.
- Make it clear that the tenant is buying the house "as is."
- Make sure the tax proration clause is pro-seller and is worded for your state's standards. In other words, you want to get any tax advantage and let the buyer pay all the taxes.
- Special assessments come due now if you have paid them out of your own pocket. For example, if the city has required sidewalk repair and you paid for it, now you pass that back to the buyer.
- The tenant should have a home inspection done before moving in. If they waive their right to do so, I mark down the date they walked through the house.
- Make sure to give the tenant the seller's disclosure statement. This not only becomes a part of their history but it will then be handed off to the next buyer as a complete history of the house.
- Include the lead-based paint disclosure and the property inventory check-in/out list.
- If I can't transfer title on their option agreement (due to no fault of my own), they get their option fees back plus an additional $500, as full and complete liquidated damages.
- If you are a licensed Realtor you have to disclose it.
- Anything that I have to do in regards to repairs gets added to the purchase price.
- Advise the purchaser to seek the advice of a mortgage broker and an attorney before signing the purchase agreement.
- The pet policies and agreements are attached to the rental agreement and signed on the same day. I have them list the names of all their pets. If one of their pets dies or is given

away, they don't have the right to just go out and get another one. The animal breeds should also be named. If they can give you a copy of the animals' health and shot/rabies records to have on file, that would be helpful were there ever to be a biting incident. If the local ordinance requires licensing, then you should get a copy of that also. Typically on my option agreements I waive any monthly pet fees, but in a pure rental situation, I would not waive those fees.

- If I get a deposit on a property, it is nonrefundable if they choose not to option it. However, I do refund it they are rejected based on credit or the potential ability to get a mortgage. Most of the time I won't even accept a deposit until I know they're approved.
- On the rental application, verify their Social Security number, and employer information.

Be Prepared for the Tenants

On the move-in date the tenant delivers the final balance in certified funds. Don't take a personal check except on their deposit. Once they have moved in, personal checks are okay, but not on the initial option and move-in date. The day they move in, make sure the following items have been completed:

- You have a copy of their renter's insurance.
- You have enough keys for the home.
- Remove the sign and lockbox, if any.
- Make sure they have the utilities turned on in their name.
- You have the new phone number of the tenants.
- Have the tenant walk through the home and complete the check-in/out list.
- Take pictures of the home.

Give the tenant a move-in gift if you like. It could be a small plant, card, flowers, or the like.

If the optionee wants to exercise the option, they must send a notice in writing to my office. If however, they do not follow all the terms of the rental agreement, I can declare the option null and void.

This may sound like a lot of paperwork and considerations to keep track of, but it's all to protect you. Think of "pro-seller" as also meaning "protect seller." That's pro-*you*!

CHAPTER 14

Managing the Property and the Tenant-Buyer

It's amazing to me how many people will pay an option fee and then walk away a few months later, knowing that they have just forfeited their fees. It is equally amazing how many people will try to get their option fees back, even though they are nonrefundable. The option fees paid are for the *right and privilege* to purchase a home. Whether the tenant-buyer (optionee) meets the terms of the option is up to them. My goal is to get people to buy, and I'll do whatever I can to help them, but I can't make them responsible. I can't make them close on the home either. Approximately half of my tenants ever get to the closing table; some walk away from their option fees after only a few months of tenancy. If they forfeit their rights, that's their choice, but some buyers will try to get that option back in many sneaky ways.

One of the smallest houses I ever lease optioned was in Michigan. It was approximately 700 square feet and had what is called a Michigan basement—a cellar with a dirt floor, stone walls, and a low ceiling. I leased it to a man named Arnold, who moved with his wife from a larger house into this little one. You might say that Arnold was like a customer because this was the second home I'd rented to him, but he was a good renter, always paying his bills on time. However, it wasn't but two weeks into the rental when I got the phone call with

the four dreaded words, "We have a problem." I braced myself and asked, "What's the problem?"

Arnold replied, "There's a snake in the house."

I asked, "What kind of snake?"

Arnold said, "A *big* snake, like a boa or python. We found stool samples in the basement and took them to the pet store and that's what they told us."

Arnold and his wife now wanted their option fee back and said they were going to move out immediately. He asked me, "Wendy, do you know of any snakes in this house?"

I said, "Arnold, hold on just a moment."

I put him on hold and thought about it for a moment. It began to come back to me that the previous owner, a big burly guy with a lot of tattoos, had snakes. I was a little fuzzy on it, though, because I had only been out to the house once, whereas my office manager, Amie, had done many of the visits to that home. I turned to Amie and asked, "Did the previous owner by any chance have snakes?"

She said, "Oh yes, don't you remember? He had cages full of them in the basement. And on the day that we went to close and do the walk-though, I noticed that one of the big cages was empty so I asked him where that snake was and he said he gave it away." We both fell on the floor laughing hysterically. We had never heard of such a thing in all our years of real estate. A big snake loose in a house. Understandably, it was not so funny to the tenant.

We had no idea where to start. We had dealt with leaking roofs, flooded basements, broken furnaces, frozen pipes, anything else, but big snakes? We don't have those in Michigan!

I got back on the phone with Arnold and said, "Well, there's a chance there could be a snake in the house. Let me call the previous owner and see if he knows anything about the snake. I'll call you back." The previous owner was nowhere to be found.

Do you know how hard it is to find a snake expert in Michigan? I called animal experts, the zoo, pet shops, animal control, and exterminators, but I couldn't get help on the situation. I had my handymen go into the house and crawl through everything, including the attic, in an attempt to find the snake. They could not find one.

In the meantime Arnold called and said someone had gone into the home and seen the snake's tail go up into the wall from the crawl

space in the basement. Arnold also told us he and his wife were moving out. I then received a call from their attorney asking for their option fee back. I discussed it with their attorney and several of my friends, who agreed they would not live with a snake either. I told the attorney that when I found the snake I would gladly return the option fee.

After many more weeks of searching, we finally found a guy whom I nicknamed "Mr. Outback" because he was willing to handle any type of critter situation.

Mr. Outback said, "Look, I've got this glue that's $100 per gallon, and I'm going to put it onto a plywood board and put the board on the basement floor. When the snake crawls across it, he'll get stuck and we'll have him!"

I let him put the board down, but, doubting the success of this method, I also called the attorney back and said, "I'll tell you what: If you can get sworn affidavits from the people who examined the stool samples and from the people who saw the tail go up into the wall, I'll refund the option fee."

In the meantime my partner said, "Sell that house."

The house went back on the market, but I forgot that glue board was in the basement. An agent, Susan, was showing the house. She went into the basement and I had forgotten about the glue board. My cell phone rang as she had stepped onto the glue board. "Wendy? What is my foot stuck to in the basement?"

I said, "Oh, that's just the glue board to catch the big snake in the house!"

Susan screamed, and I couldn't stop laughing. I said, "I'll pay for your shoes!" The house did sell not long afterwards, and I wrote on the seller's disclosure, where it asks for history of infestation, "None—confirmed."

I never heard from the attorney or Arnold again.

I think what may have happened in this case is that Arnold and his wife didn't like the smaller home. When the neighbors told them about the previous owner's snakes, they began to imagine noises in the walls. Regardless, with no snake there was no refund. I could have gone after the rest of the rental agreement also, but we sold the home, so I dropped the matter. It is amazing what people will do to get out of an agreement.

Wendy's Lesson

Option fees are *not* refundable, even though some people will try to get them back. They might even make up stories to get their option fees back.

Property Management Issues

If you have tenants in your home, you have certain responsibilities to them. Take care of the house, make sure it's livable, keep open lines of communication. View your sellers and tenants as customers. I'm tougher on the tenants because they botch deals more often, and that's not usually an issue with the sellers, but I still always keep my end of the bargain.

Make sure that you're keeping your Realtors, lenders, and others informed at all times, and that they know where to reach you if they have questions. Communication is key!

Protecting Your Privacy with Tenants

In general you do not want your tenants to know where you live, so have their rent come to either an office or a post office box. In case a deal goes sour and you have to evict them, you don't want a disgruntled, grudge-bearing tenant to show up on your doorstep. You have to protect yourself and your family. I don't give my tenants my home phone, and that number is unlisted. I would only give them my office or cell phone number. Make it difficult for them to find you.

Who Is Responsible for Repairs?

One of the benefits of the lease option is maintenance—the tenant does it all! My lease option contract says that the tenant is responsible for all maintenance, major and minor. However, if I end up having to do any repairs, I'm going to add the cost to the purchase price at clos-

ing. Let them think through their own possibilities first, but if they still don't know what to do, then send your own maintenance people and recoup the cost at closing.

For example, if the tenant's heat goes out in the middle of a Michigan winter, it's crucial to get that fixed. On the other hand, if the air conditioning goes out in the summer, it's unpleasant but livable. Do not make your tenant unduly fix too much, because if you treat the tenant like an owner then the court may treat you like a seller. The tenant can claim that they've put so many dollars into the property, and the court may make you go through a forfeiture or a foreclosure versus an eviction, which in most states is more expensive and much more difficult.

In a buyer's market you can put more of the responsibility for maintenance onto the seller (see Chapter 6 on negotiations). In a seller's market, I don't want my seller to do anything but be free and clear of that issue. However, I have to preapprove in writing any improvements my tenants do.

Keep a copy of any letter regarding maintenance in the tenant's folder. When a tenant calls, I record what was said for their records also. The same goes for maintenance. I track everything. If the roof leaks, and someone slips and falls, accurate files will suddenly become very important!

Transition between Seller Moving Out and Tenant Moving In

Always assume that the tenant won't buy. Otherwise it's like the proverbial counting your chickens before they hatch.

Therefore, always have complete documentation of everything regarding a tenant moving in. Probably your most important thing will be to have a videotaped walk-through check-in with the tenant. It is important that you capture on tape their verbal acknowledgment of the condition of everything, whether good or bad. You also protect yourself with paper documentation of the condition of the house—documentation that they have signed. The tenant always thinks they're going to buy, but things happen, and a checklist protects both you and them. If the window wasn't broken at the time of move-in but is when they move out, you will have paper and

video evidence if you need to take them to court and sue for any damages.

After the seller has moved out, make sure it's ready for the tenant. This includes the following steps:

- Carpets are cleaned if needed (the seller may do this, but if they don't, you need to make sure it happens).
- New paint (if needed).
- Dings are fixed.
- Kitchen and bathrooms are cleaned, regrouted as necessary.
- Kitchen cupboards are cleaned out.
- All appliances left behind are clean and in good working order.

Go through the check-in/checkout sheet with the outgoing tenant—have them check the condition of everything and sign everything. Take pictures at the same time or even videotape the walk-through for future reference if needed.

Keep track of the title during transition, especially if you're not making the mortgage payment, and especially if it's a long-term contract. You want to make sure the title stays clean and clear. Review the title work occasionally if you feel there could be something going on with the seller that might negatively affect it.

Maintenance on the Property

Although the option agreement states that the tenant is responsible for all maintenance, it is still important that you keep the place habitable and treat the current resident like a tenant. If you treat them like an owner, a judge might also treat them like an owner, which will nullify the option.

- Always change the locks after a tenant moves out. If you don't change them and someone still has a key, you could open yourself to serious liability.
- Clean the carpets.
- Repair any paint problems.

When a Good Buyer Turns Bad

Unfortunately, this business is not all perfect. There are times when you will have a tenant that you think is great—you are sure they will exercise their option; they have paid on time, taken care of improvements/repairs, and been nice in all dealings. Then it happens: Either you don't hear from them (they miss a payment) or they start to make things difficult with repairs, complaints, and so on. They were a good tenant and now they are bad.

I recommend trying to work things out on the phone first. If this does not resolve the situation, then put things in writing. If you have a problem with a tenant that can't be resolved over the phone or in writing, then you must go to the next step: eviction and the revoking of their option. In order for you to be able to do this, they must have violated part of the rental agreement, or option agreement.

This is why I use option contracts that are subject to the rental agreement being followed. I include in my option contract this statement: "If any rental or option payment is made 10 days or more late, then this option can be declared null and void by Optionor." It is usually advised to revoke an option in writing before you evict a tenant. This adds only one or two days to the process. Once you revoke their option, you can start the eviction, as there is then no option agreement in place. (In most parts of the country, revoking an option agreement is not necessary to evict someone; however, it is the safest way.)

To revoke an option, you can send the tenant a letter via both first class mail and certified mail, both letters containing the information that the option has been revoked. The certified one is the one you want them to receive and sign for, but if they don't, you sent it first class also. I use this for extra precaution. When you send the revocation letter, you should indicate why you are revoking their option. You might want to attach a copy of their option agreement and highlight the area you are utilizing to revoke their option contract. The letter can be as simple as this:

> *Dear Joe,*
>
> *Attached is a copy of the option agreement you signed. Your rent is now 15 days overdue and this is a violation of the option agreement. You have been late many other times*

> *also. We are now voiding your option agreement. Please be advised that you no longer have the right to buy this home.*
>
> *Sincerely,*
> *Wendy Patton, member*
> *Wendy Patton's LLC*

If you want to allow them to reinstate their option, you can state that in this letter:

> *If you want to reinstate your option, you will need to remit the amount of $__________ currently due, by (date).*

I recommend this statement if you want to work it out with the tenants. Remember to try other, softer ways to work it out first; the revocation letter should be a last resort. If this is used too early in the negotiations, the buyer may be angered to the point of no return.

The best advice I can give on late payers is to start eviction as soon as possible. My office starts to evict when rent is five days late. From over 20 years in this business, I can tell you that, unfortunately, tenants lie. I tend to want to believe them and want to work with them. It was always hard for me to evict, because I have a soft heart. I want to believe people and I do until they prove me wrong. Unfortunately, I have been burned many times from deceit and promises that could not be kept. Remembering one thing can help you be firm on this policy:

Wendy's Advice on Accepting Sob Stories

If the tenant doesn't pay their rent, you are paying it for them.

You can listen to all the sob stories you want; however, most of us can't afford to carry another family.

If you don't like playing the heavy, you can also have your partner/spouse sign the contracts and you be "the manager." The tenant doesn't know you are the owner also—they only think you manage the

home. This way when they don't pay and they give you a sob story, you can be the good guy. Example: Tenant hasn't paid rent due to husband being laid off, wife is pregnant, it is December and very cold outside, and it is almost Christmas. You can say, "Boy, I really feel for you. This must be a hard time for you. I would let you stay, but I have to start to evict you, or I could lose my job. The owner is very strict on this and is tight on cash too. He/she really needs you to pay soon. Do you think you can do it?"

A special note about receiving payments that are postmarked with a Pitney Bowes machine: The dates can be changed, of course. A tenant can tell you, "I sent you the check," and you may receive it several days late with a Pitney Bowes stamp that precedes the due date. I tell my tenants that their payment has to be stamped by the post office and not a Pitney Bowes machine because of the potential for deceit. When I was first starting out, I didn't realize that the dates could be changed and I got burned a few times until I realized this.

Of course you don't want to have late payments from your tenants, so you lay out the ground rules up front about late fees. However, tenants can feel too intimidated to call their landlord with even a legitimate excuse about why the rent is late. It is important, therefore, to keep a rapport with the tenant, so facilitate a comfort zone and open communication. Be friendly but not friends—at least not until the option is exercised. It's similar to a parent-child relationship—the parent is not the child's best friend. Being a landlord is a business. If the tenant doesn't pay the rent and you don't do anything about it, you will have to pay their rent—and that's not a smart way to run a business.

If you have an arrangement with your tenants that their rent is always due on the first day of the month and you don't get it, call them immediately or send a notice: "Is your rent going to be late? Call in with one of these numbers, so we will know why." When your tenant first moves in, you can give them a list of the most popular excuses you've had for rent being late. It's a little humor but at the same time lets them know you've heard it all before and that you'll be watching. It also shows there is a serious side to paying rent on time. You can add to your own list as you learn through the years. You won't believe the excuses you will hear.

- I lost my job.
- My dog ate the cash.

- My grandmother died.
- My grandmother died again.
- My roommate stole the money.
- My boss didn't pay me.

Wendy's Tip

At the very least, tenant issues provide a great wealth of learning experience, and many times a good laugh! Learn to smile at the stories—it helps relieve the stress.

If you need to take legal steps to collect past-due amounts, be aware that each state has different collection procedures and abilities. In Michigan I can garnish bank accounts, wages, state tax refunds, and so on. In Texas, landlords can't garnish anything. You may want to use a collection service, but be aware that the collection company will take 40 to 60 percent of what is recovered.

Tips to Increase Profits and Protection

Sometimes it pays off to find the tenants before you find the house! Line up some potential tenant-buyers, then go find the homes that will fit them in their price range and in their area. This is especially a good idea in a buyer's market.

Clearly define "on time" to your tenants, and charge for late rent. My rental agreements say that I will charge $5 per day, and I enforce that. Also charge court costs, state fees, legal fees, whatever your state will allow you to charge.

I always pay the water bills myself, then bill the clients for them. This way I make sure they are paid on time. Otherwise the city could put a lien on the property if I left it up to the tenant and the tenant didn't pay. Not all areas of the country are the same, so check this out in your area.

Enforce your maintenance co-pays. If the tenant is supposed to pay the first $50 of maintenance, make sure they do.

When you get a check, call the bank and see if that check is good. The bank won't tell you how much is in the account but they will tell you whether it will clear. If it's not good, call back a few hours later and suggest a lower number, asking if a check for that amount will clear. If the first amount of $1,000 was not good, but the second amount of $800 is good, then you know that the account has between $800 and $1,000 in it. In that case, deposit $200, then cash the $1,000 check, and bill back the tenant for the $200 difference. You *must* call and make sure the check is good before you try to cash it, because the bank will only submit the check twice. My policy is that tenants may use personal checks until one bounces. Thereafter they all must be certified funds or a cashier's check.

Moving a Tenant Out When They Decide Not to Exercise

If the tenant decides not to buy the property, then go through the property with them and check it out.

If you had a security deposit with the tenant, keep in mind that in most states a security deposit cannot be used to cover normal wear and tear on the property. Normally with an option I don't have a security deposit, because I want their money tied up in the option (nonrefundable) as opposed to a security deposit (refundable), but there is a good argument to have money tied up in a security deposit: Then it looks more like a rental agreement. Of course, if they have animals you might also want to charge a security deposit for that. In any rental agreement, if the security deposit isn't enough to cover damages, you would have to sue the tenant to get recovery for damages.

A Success Story

I lease optioned a property to a real estate attorney's daughter, who wanted her dad to review the contracts. I don't mind at all if an attorney reviews my contracts because I know I'm not going to change

them much. The dad called me and said in a stern voice, "I'm not changing one thing."

I said something like, "Oh no, the contracts must not be very good."

He said, "No, you don't understand. My daughter made her bed and she can lie in it. She got the bad credit herself, and she can fix it. Your contracts are tough but they're fair. If she doesn't do her thing, she can lose her money. I'm not bailing her out anymore. I just wanted to make sure they were fair."

Thankfully, the daughter made her payments and ended up buying the house. I made $35,000 on the deal. I saw the daughter again three years after she had closed on the home. She ran up and hugged me and thanked me for her home. She had recently sold it and made over $40,000 herself. She had two children and needed a larger home. This is a true win-win-win!

CHAPTER 15

Closing: The Big Payday

This is when it all comes together! This is the real estate investor's payday. If you have been working with your tenant-buyer from the beginning and keeping them in touch with a mortgage broker, you will know when they are ready to purchase your home—they are finally ready to close. If they want to use a mortgage broker of their own choosing, find out who it is and keep in touch with them, so that you will know where they stand on getting their mortgage completed.

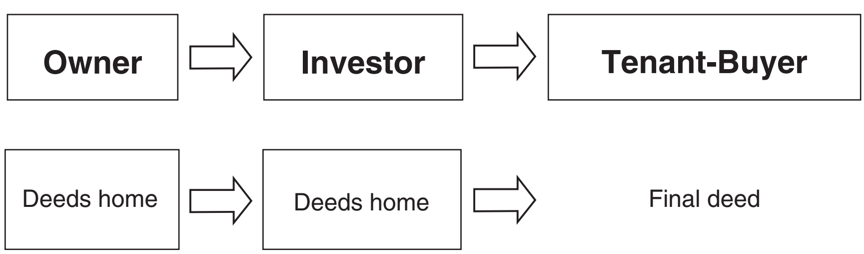
Although the paperwork was signed many months earlier, often the mortgage lender may want you to change something on the contracts in order to get the mortgage approved. For example, the buyer may need more money for closing costs, so the lender may ask if you are willing to pay for some closing costs if you increase the price of the home by the same amount. I am always willing to do this, as long as the home can appraise for the new amount and the changes are fair for all parties involved.

I have also been willing to hold a second mortgage for the buyer. For example, let's say the buyer is purchasing the home for $200,000 and they gave me a $4,000 option fee. Therefore they owe me $196,000 (or possibly less with option credits for paying on time, etc.). However, the lender wants them to have 5 percent plus closing costs

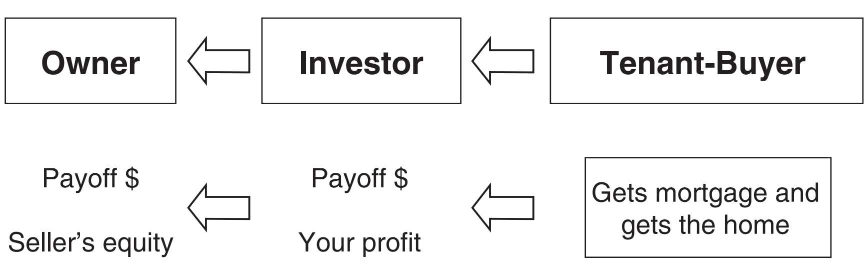
into the home, and they don't have any more money to put down. They need an additional $10,000 to close this home. I might be willing to hold a second mortgage for these buyers for the $10,000 if I believe the home is worth the mortgage and that the people will make their second mortgage payments. I would then get all of my profits out of the home at closing except the $10,000, which I would get out over time with payments on the second mortgage. Many times on the second mortgage I do a one- or two-year balloon so that I get paid off fairly quickly. They would have to refinance the home in that time period and pay me off.

A simultaneous or double closing is when there are two closings on the same home at the same time or on the same day. It is sold and bought the same day. Usually the investor does not need to bring any money to the closing; the money brought in is the tenant-buyer's mortgage or cash. That money is used to pay off both the owner and the investor, as in the following diagrams.

Typical Example of How the Deed Flows



Typical Example of How the Money Flows



This applies only to lease option deals. (With subject-tos you will already own the home, so there will not be a double closing.) These can be tricky with lenders that require seasoning of title (discussed in Chapter 7). It is essential to show that your interest in the title did not appear overnight. Depending on which state you are working in, closings may be handled by either a title company or an attorney. Some title companies and attorneys don't like simultaneous closings, due to the fraud in the investing industry that has created the seasoning requirements. Make sure you find a title company or attorney who understands how you do this business and what you are doing. If you want a good reference, your local real estate investor group will certainly know who does this type of closing in your area.

Find out when the buyer is going to close, and stay in communication with the seller about it until you get it down to the exact day and hour. *You* need to be the coordinator, not anyone else. You have to make sure all the pieces fall into place. Coordinate the tenant's making arrangements with the mortgage company. Make sure the buyer, the title company or attorney, and the mortgage company are all on the same page. I recommend you reconfirm each party the day before. It would be a shame for the deal to fall through due to a scheduling oversight.

The mortgage lender only sees one half of the transaction—the part between the investor and the buyer. To the lender, I am the seller. The title company sees both parts. Make sure when you are coordinating with the title company or attorney's office that they know both sides of the transaction, as they will need the paperwork on both sides. To them it is two separate files, and two closings.

The mortgage lender will need copies of the contracts, a payoff letter (see the example at the end of this chapter), and copies of canceled checks. From the beginning, ask the tenant to keep copies of their canceled rent checks, if possible. With the banking industry changing and not sending our checks back, they might have to order these, but I also keep a record of all of their checks—check number and date paid—as a backup. Most lenders, if they want to do a lease option refinance type of program, will need 12 months of canceled checks or proof of payments. A letter from me alone is not enough.

I do not like my buyers and sellers to meet. Though intellectually each of them knows I am making a profit and each of them

knows I am a real estate investor, putting that dollar amount in front of them can destroy their enthusiasm. Each of these real estate deals is structured to be a win for each person involved, but imagine what happens if we change the scenario and put us all at the same closing table. The seller and buyer see me get my check for $42,400, and their joy is greatly diminished. They are not as happy about the deal they each received when they know exactly how much I am getting. The psychology of the room changes. I don't want to change the way they each feel about the deal, and therefore I never put them together.

Although it doesn't really matter who goes first, the one who closes first will have to come back a second time. Let me illustrate why.

Scenario 1: tenant buyer first. The tenant buyer comes in with the mortgage papers completed but cannot receive their completed ownership package, because I don't have the deed yet from the seller. I can sign one to them, but I don't have one yet from the seller to me. They will have to come back and get their closing package after the seller closes with me. This is called a "dry closing," or "closing in escrow," meaning that something more has to happen for it to be completed. In this case, the seller's and my closing must take place for it to be completed.

Scenario 2: The seller goes first. The seller can come in and close first with me, but no money changes hands until the closing takes place between me and the buyer. This would also be a dry closing, or closing in escrow. This closing is waiting for funds or money from a mortgage, but not my mortgage—the mortgage of my buyer, which will be completed at the second closing. I am essentially paying cash on this deal, but only when I receive it from selling the property to the tenant-buyer. The seller must come back a second time in order to pick up their check.

I prefer to close with my buyer first so that the money is at the title company or attorney's office. I will usually then call the seller to let them know everything is fine and ready for their closing. Sometimes with mortgage companies the money is not wired into the closing office until hours later or the next day; therefore, the seller might not get their funds until later anyway. I just like to know the money is there and waiting.

Here is an example of a payoff letter for the lender:

To Whom It May Concern:

The payoff for 123 XYZ Street is:

Price	*$200,000*
Less option fee paid on (date)	*–$ 5,000*
Additional option credits earned	*–$ 1,100*
Balance due as of (date)	*$193,900*

Please feel free to call me with any questions.

Sincerely,
Wendy Patton, Member
ABC, LLC
(222) 333-4444

Add anything else if they owe you any repairs during the option period, outstanding utilities, outstanding rent, and so on. Don't forget to put these in the payoff letter also.

CHAPTER 16

Advanced Concepts and Strategies for Selling on Lease Options

I once bought a parcel of property on a land contract. The property had splittable acres in a town near me, which was fairly rare. One part of the property needed development and the other part had a house. The seller of the house was an older lady who had lived there for 30 years.

Because the house needed some work, I lease optioned it as a handyman special. Along came Steve, who was a licensed builder. Because he was a licensed builder, I had him sign all the contracts under both his personal name and his company name.

Wendy's Advice

When signing contracts, always have the tenant-buyer sign both personally and under their company name, if they have one—especially on the rental agreement. Also have all parties over the age of 18 sign the rental agreement. This puts each person and the companies liable for the debt, if the tenant-buyer does not pay.

For Steve, this seemed like the perfect house. There wasn't anything in it that needed fixing that he wouldn't be able to tackle or have the resources with other contractors to tackle. It wasn't too far into the renovations, however, that Steve called me and said, "We got a problem—this house has been in a fire."

I was unaware of any fire, so naturally my first response was to call the seller and ask if she knew anything about a fire. The seller confirmed that while she lived there, there had never been a fire. Now because the house was built in the 1920s or 1930s, there was a possibility that anything could have happened to it, but she didn't know about it and neither did my inspectors. Steve said, "Wendy, I can't even believe the roof is standing, because all the rafters are completely charred all the way up and through the decking."

I asked him what it would cost to repair, and he said $3,500 in materials. I offered to give him $3,500 off the purchase price when he exercised the contract. This had been advertised as a handyman special, so I hadn't cheated him or lied to him. How could I know what was up under the plaster? He agreed and we signed an addendum.

Everything seemed to go smoothly for months—he was making repairs and improvements, and I was sure he was going to exercise. Month 17 came, and I asked him if he'd been speaking to the lender and if he was going to get a mortgage. He said he had a little glitch in his credit, so I asked if he wanted to extend for another six months. I didn't have a problem with this because he'd been paying perfectly. But he said, "No, I'm moving next month. I don't like all this development happening around me."

Steve had known about the development when he moved in, and it was documented in the contracts that he signed. He moved out and sued me for the option money he had put down in the beginning.

Being sued is scary and nerve-wracking for most people. I don't like it either, but I have been through it a handful of times. It's inevitable, and all the more reason to keep excellent records on every little thing that happens with each house, each conversation, each mailing, and every document.

In court Steve told the judge that there were many problems with the home, and he showed the judge many pictures of the home and of the fire damage. The judge asked him if he thought I had known about the fire. He responded, "No, I couldn't tell either, it was covered in plaster." Then the judge asked me. I said I had not known

and that I did offer to pay the $3,500 to fix it. The judge looked over our contracts very briefly, and noted where it said the home was sold "as is," that it was a handyman special, and that Steve had had the home inspected. The judge pulled her glasses down to her nose, pointed to a paragraph in my contract, and said to Steve, "Wendy did not have to offer to pay anything for the roof—she was more than fair. So, sir, I have just one question for you. What part of 'This option fee is NONREFUNDABLE' do you not understand? Case dismissed."

Advanced Selling Strategies for Lease Options

Having mastered the basics of lease option deals, you might want to add some of these strategies to your repertoire.

Handyman Specials

Handyman specials are homes that are in less than perfect condition and require sweat equity to bring them up to a new level of respectability. A lot of money can be made in a handyman special. The tenant-buyer's overall purchase price, or option fee required, should be lower because they must do the work themselves. I can't provide enough homes for people who want this situation. This technique will work in most areas of the country except in areas where the city requires certification or landlord licensing. In those areas the city won't allow homes that aren't perfectly up to code to be rented. Sometimes these homes might just need paint or a few minor items, but sometimes they may need some major repairs. In areas where the city doesn't require inspections or certifications, this can be a great way to liquidate your properties. Tenants perceive value in the fact that they can do the sweat equity themselves. You'll make just as much money and you won't have to go over budget on doing your own rehabbing.

One word of caution: Make sure the home is habitable. It must be able to be lived in, or you will have problems if the tenant-buyer doesn't pay and decides to fight you on rent or their option. Any judge will expect the landlord to provide a "habitable" home for their

tenant. Generally the tenant-buyer is going to love you because you are giving them the American dream: a nice fixer-upper.

Section 8

Section 8 is a rental-assistance program funded by the federal Housing and Urban Development department (HUD), which gives approved tenants financial assistance by paying a portion of the rent directly to the landlord. Section 8 now has a program for lease options. Section 8 doesn't control the particulars of how the lease option is set up but will make the monthly payments as with their regular program. After the lease option is started, they will help the tenant-buyer get a mortgage that will convert the lease option to a purchase. It's not appropriate for every Section 8 tenant but for a select few that qualify. Talk with your local Section 8 administrators so that you have all the current information.

As a landlord, I love Section 8, because the rent payment, or most of it, comes directly to me from the state.

Ads for Soft Rental Markets

In soft rental markets there will be many rentals and not many good tenants. In order to get a good tenant into your home, you will need to make your rental ads stand out. The ad must contain something that looks better than the competition's ads. One idea that I have used is to offer to rent for a few hundred dollars lower than I actually intend to let it rent for. When the applicants come to the home, I screen them to see if they can afford the extra $200 per month. If so, I offer them a chance to make 50 percent on the additional $200.

I might say, "You really like this home, don't you? And you want to buy it, right?" Of course I know they do. "How would you like to make 50 percent on your money?" When they say yes, then I offer to give them a $300 monthly credit toward buying the home if they pay an extra $200 per month. Now I am getting my $200 more per month, which is what I originally wanted, but I advertised it at $200 per month less to generate the leads. Yes, it does cost me $3,600 in option credits for the entire year, if they purchase, but I was able to rent the home. If they don't purchase the home, I received my entire rental amount. This is a small amount to pay to get someone in during a slow market.

Strategies for Reducing your Taxes

How would you like to have to worry about paying Uncle Sam? Worry about getting into a lower tax bracket because you are making too much money with lease options and subject-tos? When you have been investing for some time and get your pipeline filled with deals, your income will increase and you will need to be creative in finding ways to save on taxes when you sell. You can always keep your properties forever, but if and when you sell, there are tax issues. Here are some things that I have done to reduce taxes for myself.

Exercise Your Option and Hold for Another 12 Months

If you are in a higher tax bracket, you might want to consider exercising your lease options with your sellers prior to your tenant-buyers exercising their options. If you do a simultaneous closing, it is considered a short-term capital gain. You only owned it for one day. Therefore you are taxed at your normal income rate. You can sell your option by assigning it, but if you have held it for more than 12 months it is long-term capital gains, taxed at a much lower rate. Unfortunately, if you assign your option, the profits are not nearly as good as selling it to a tenant-buyer, and very few tenant-buyers can pay an entire assignment fee to get you the profit you would receive if they were to purchase it outright.

Therefore, if taxes or high tax brackets are an issue for you, consider exercising after the 12 months of payments to the seller (treated as a refinance so you don't have to put down cash out of pocket either—see Chapter 4), and then make sure your tenant buyer doesn't close for another 12 months. This would give you long-term capital gains on the ownership of the property and give you a much better tax rate on the profit. This is not a problem with subject-tos, as you are the owner from day one and only have to do a lease option for 12 months to get a long-term capital gain rate.

1031 Tax-Deferred Exchange

A 1031 exchange is an excellent way to defer your taxes and capital gains by taking the profit of your sale and rolling into a property of

higher value, or two or more properties whose combined value is higher than your sale. A 1031 tax-deferred exchange is a great tax strategy, but this takes a bit of planning and foresight because there are time limits to make this happen. In other words, at the time of sale you should have a property lined up already into which you can roll the money.

You won't actually handle the money yourself. A company that does 1031 exchanges will play what is called the intermediary between the current sale and the new property and will move the money from one closing to the next for you. It has to be done very carefully and with a good company or the IRS might not allow the exchange. You can't touch the money. You also can't live in the new, higher-valued property or in any of the combined properties that are in total a higher value. You need to rent the properties or hold them as an investment since a 1031 is for investment exchanges and not personal residences.

This strategy should be used when you need to defer your capital gains. When you are first starting out in the business, you might not be showing much income, so you won't need the 1031 technique, but do remember it exists. When you start needing these techniques, you know you've made it!

PART 5

CREATING FUTURE FINANCIAL FREEDOM—FX3

CHAPTER 17

Business Organization for Lease Option and Subject-To Investments

You might be thinking, "I have a few properties, and keeping track of what's going on isn't difficult with some files on my desk." But apply that thinking to 175 active properties in various stages of buying and selling, renters paying late, evictions, and rehabs, and you've got an administrative nightmare if you don't have systems in place.

Setting Up an Effective System

Whether you have only a few properties or many, you might as well set up your business as if you're planning for many properties. That way you're already in the groove for expansion.

Color Coding Your Files

Have a file cabinet dedicated (or maybe just one of the drawers to start) to your properties. I keep my files in alphabetical order by property address, not by seller or tenant name. Each property has two

files. How you color code your files is up to you, but I use green labels for the seller (think green for money!) and red labels for the tenant-buyer. When I open my file drawers, it's like Christmas! My folders are half-tab, which means the tab goes halfway across the top of the folder. This has been easier for me to deal with, and one color is always on the right and the other color on the left.

Seller Folder ***Buyer Folder***

The seller folder holds all the documents that you signed with the seller—the pro-buyer contracts. If you own the property on a subject-to or a mortgage, it would contain all of the mortgage or subject-to documents. It also contains any correspondence with that seller. This folder would also contain any information about the home such as title work that was done, surveys, inspections, etc.

Tenant-Buyer Folder

The buyer folder holds all of the pro-seller contracts. It also holds all correspondence with the buyer, original application, credit report, copies of payments, all bills, maintenance records, all other related correspondence, and a $3^1/_2$-inch floppy disk or CD with digital pictures of the house. This folder may even contain digital film of a walk-though of the property with the tenant to show the condition of the home when they moved in. Keep a copy of each check they write, any water/sewer bills, and other bills that you have sent them. You will need their check copies for when they get their mortgage, to prove that each payment was made and when. They will need to get their cleared copies from the bank, but your copies will help them know what check numbers to request from their bank.

This folder should also be used to keep track of any communications with the tenant. Anytime one of your tenants calls, record the call on a piece of paper, writing down what they said, what you said, and how you handled the call—whether there was anything to be completed. Document everything with the dates and times, and if you send a maintenance person, make a record of who you sent and what they did to fix or not fix the problem. Hopefully, you will never need the documentation, but if you ever do you will have it there. Don't throw it away until years after you have sold the property to them or to someone else. I had a case where a tenant sued me a year after they moved out for a slip-and-fall case from 2.5 years earlier; however, we had all of our documentation, so it never went to court. Keep your records. I didn't even know they were upset about it and I would never have expected them to try that, but they did. Tenants have a certain number of years in which they can still come back and sue you, so hope for the best and plan for the worst.

Software for Your Business

If you have only a few properties, you don't need any special software for keeping track of their information. A simple spreadsheet in Excel will work just fine. However, if you have many properties, you will want to invest in a property management software program. Talk to someone in your real estate investors group or on one of the real estate web sites to see what program will meet your current needs.

There are also many accounting programs available. The one my office uses is Quickbooks. It writes our checks, keeps our accounts balanced, and at the end of the year we get itemized reports per property, per expense account, per LLC, or whatever we want. All the good accounting programs will do this for you. The key is to make sure the software can track items by property so that whenever an item is paid or received, it is linked to a particular property. If you are using the appropriate software and have religiously assigned the payments and deposits, you should be able to quickly see a summary and/or detail of all income, expenses, improvements, and so on by property. In Quickbooks, using "Class Tracking," with each class being a particular property, you will be able to easily accomplish this.

Another advantage to good bookkeeping records is that your bill with your accountant will actually be lower because so much of their work is already completed.

Work Orders

When something goes wrong in a home, or when you have work to be completed, you will need a process to track the work. We purchase work order books with carbon copies from an office supply company. We put the property address on the work order, the tenant's name and number if it's occupied, and the problem. We keep one copy for us and we give one to the handyman. The handyman must complete the work order, fill it out with details of what was completed, and then bring it back to us in order to get paid. We then follow up with the tenant, if the house is occupied, to make sure the work was completed. If so, we issue a check to the handyman. We keep a copy of the work order in the tenant file. The repair cost may later be added to the purchase price, depending on the terms of the option contract with the buyer and the extent of the repair. The seller may also be responsible, depending on what was negotiated with them.

Tenant Payment Ledger

I set up a tenant payment ledger for each property that is either a rental or an option. Here's an example of what it will look like:

Your Company Name: ____________	Option Fee: ____________
Address of rental: ________________	NSF:____________________
Tenant Name: ___________________	Lease Dates:______to_____
Home phone: (buyer) ____________	Water Softener: (amount if applicable) __________
Monthly rent: ___________________	City Water:______________
Other Charges: ___________________ (if applicable)	City Sewer:______________
Security Deposit: ________________	

The next section of the ledger is the payment history. In the following example, our tenant will have an option fee of $1,500, and their move-in date is November 1, 2XXX. The monthly rent will be $1,095, and there's a quarterly water/sewer bill of $52.50. The "Credit" column is for the tenant payments, the "Debit" column is what the tenant owes, and the "Balance" is the sum of the two.

Date	*Description*	*Debit (owed)*	*Credit (paid)*	*Balance*
11-1-XX	Option fee due	$1,500.00		$1,500.00
11-1-XX	November rent due	$1,095.00		$2,595.00
11-1-XX	Option fee payment		$1,500.00	$1,095.00
11-1-XX	November rent payment		$1,095.00	0.00
11-10-XX	Water/sewer bill due	$ 52.50		$ 52.50
11-23-XX	Water/sewer bill payment		$ 52.50	0.00

Using a Tenant List

I have also created a document showing all of the properties I own, the current tenants, their lease option expiration date, and what utilities they are responsible to pay. I include a column for the owner and their address, if I have purchased it on a lease option, and my contract expiration date. This list allows me to know at a glance who should be working on their financing. I can always stay ahead by checking my list on a regular basis and getting my tenants to a mortgage broker several months before their contract expires.

Property	*Company*	*Owner info*	*Contract End*	*Tenant*	*Lease End*	*Rent*	*Utilities*	*Misc. Info*
123 Flintridge Lake Orion 48359	MR Ltd.	Sally Harris (234) 222-2343	XX/05/31	John & Jane Smith (333) 333-4444	XX/03/31	$ 995	Township water/ sewer	Lease option
123 Genoa Clarkston 48346	MR Ltd.	Joe & Jane Smith (222) 342-4444	XX/02/28	Cary & Jen Edwards (333) 333-4444	XX/03/31	$1,195	Well, septic softener	Lease option
123 Hilberg Oxford 48371	MR Ltd.	Sally Seller (111) 222-2222	XX/03/31	Leroy DuBois (333) 333-4444	XX/04/30	$1,595	Sewer/ well	Lease option
123 Huntington Lapeer 48446	Mill Ltd.	June Taylor 123 Bliss Street Ann Arbor 48123 (333) 333-4444	XX/07/12	Bradford Shue (333) 444-3333	XX/05/31	$1,795	Township water/ sewer	Lease option

123 Hollywood Fenton 48132	Keystone	Fifth Third Bank	—- —- —-	Alan & Kim Wayne (333) 123-4567	XX/05/31	$1,095	Sewer/ well	Rental
321 Crescent Rochester Hills 48561	Keystone	Bank One	—- —- —-	Roger & Sally Smith (333) 123-4567	XX/05/31	$1,495	Well, septic Softener	Rental
481 Kroft Lake Orion 43671	MR Ltd.	Tom and Kim HomeOwner (222) 222-3333	XX/12/31	Jennifer Gale (333) 333-1234	XX/05/31	$1,395	Well, septic Softener	Lease option
321 Hope St. Lake Orion	Mill Ltd.	Mark Money (222) 333-3333	XX/10/31	Lucy McGillicutty (333) 123-4678	0X/07/31	$1,495	Sewer	Lease option

Keeping Necessary Documents on Hand

It is extremely important to keep documents in your office that you will be using on a regular basis. Nothing is more annoying than needing a document and finding that you don't have it. Spending time searching online or going to your local office supply store to get it is a waste of your valuable time. For instance, depending on your state, you can download tenant or legal documents from the state's web site. Save these documents to your Word program to enable you to pull them up and tailor them as needed. You may want to create a document checklist to make sure that you have what you need; then when your supply gets low you can reorder before you run out.

Good Recordkeeping Is a Must!

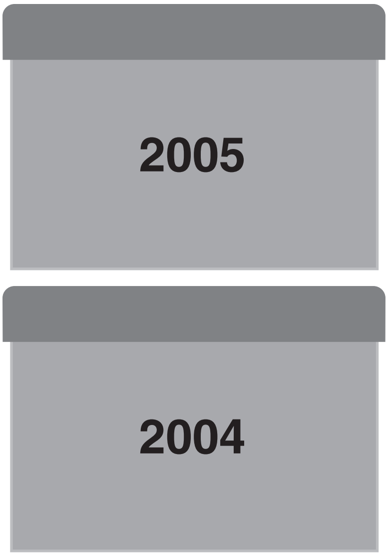
In addition to the two folders I've mentioned, one more file should be used to store *every* receipt for each property. There are always expenses that the tenant is not responsible for paying (advertising costs, attorney fees, improvements, etc.). In our office, we use legal size folders or large title company envelopes (free from the title company that we use). Each folder or envelope is labeled with the property address and filed in alphabetical order. Every time an invoice or bill is paid for a particular property, a copy of the invoice is filed under the property address. We note the check number and date paid on each invoice. If the tenant is responsible for reimbursing us, a copy of the invoice is also placed in the tenant file. At year end, these receipt files will contain all documentation needed to substantiate all expenses, improvements, etc. for that particular property.

For those items that cannot be associated with a particular property—for instance, general advertising not tied to a particular property ("We Lease Homes," "Office Manager Needed," etc.), postage, office supplies, license fees, or the like—we use a file labeled "General Rentals" and file receipts for those types of expenses in this file.

The last type of file used to document our bookkeeping is a file for each bank account, labeled with the LLC name and "Canceled Checks." We file all the bank statements and canceled checks for that LLC in that file.

At year end, all files are moved to storage boxes. Each box is labeled with the LLC name and year. Placed in this box are all the files

with the receipts for each property under that LLC, as well as the canceled check/bank statement files for that LLC. This may seem like a lot of paper to store away, and some of it may seem redundant (a copy in the tenant file and a copy in the property receipt file), but if you are ever unfortunate enough to go through an audit, everything you need to support your tax filing is in one box, efficiently organized and easy to retrieve. You hope you will never need them, but there are times you will need a copy of a receipt and you want to be able to locate it quickly. I have been audited twice and my audits both had no changes, because my records were so easy to find and they were very clean. The auditor's first words when arriving to my office and getting a tour of our records was, "Wow, you are *very* organized!" You don't want to be audited, but if you are, it's nice to have someone respond that way.



Previous Years Records

When to Hire Someone

At some point you will need to hire someone to help in your business. When your business has grown to the point where you are no longer able to handle all the tenants, bookkeeping, or organization necessary to efficiently run your business, or you are so busy handling the little

stuff that you are not spending enough time on the real money-making end of your business, it is time to get help.

The first thing to do is to evaluate your own strengths and weaknesses. Then hire someone to take over your weak areas. If you are great with tenants but lousy at bookkeeping, get a part-time bookkeeper. If you are a lousy organizer, get someone to help with this. Perhaps the only thing you need at first is someone to handle the phones, correspondence, and busywork. If you have hired the right person, their responsibilities will grow as your business grows. The important thing is to stay focused on the most important part of your business, which is finding new properties.

Qualities to Look for in an Office Manager or Property Manager

Of the many qualities you should consider when hiring an office manager or property manager, I have discovered a few that I feel are the most essential. Pick a person who has the qualities that are most important for the job you need accomplished, and the rest of their skills will be bonuses. This individual will be your right-hand person and a key part of your team, so it is crucial that you select the right one. Here are the skills that I have found to be the most important over the years—not necessarily in order of importance:

- *Firm.* There are times when a tenant will try to push the limits with being late on rent. You want your assistant to be firm.
- *Pleasant.* Your assistant must be pleasant even when you want to blow up. There are times when I have wanted to lose my temper with someone on the phone, but my assistant will not blow up because she is not personally involved, so she can be nonemotional and pleasant.
- *Detailed.* This person must be able to be very detailed. They will be tracking tenants' rent, late fees, water bills, option fees, correspondence, and many other items. Everything must be documented and detailed.
- *Good follow-through.* This area is very important, as the little details that fall through the cracks can cost you tens of thousands of dollars and many lawsuits. Making sure that nothing

falls through the cracks is critical; for example, did the gas get turned on at your vacant home in January in the Michigan area? If not, you might have an ice skating rink in your home. How do I know? I had some follow-through problems.

- *Organized.* Following the systems you have in place and your checklists will be very important. Also, knowing that your assistant has things well organized, labeled, and filed, so that you can easily find things when you need them, will be very important to you.
- *Computer skills.* It is impossible anymore to not be involved with or able to use computers, so make sure your assistant has computer skills. Basic word processing and spreadsheets are usually the most important parts of property management. Spreadsheets can be taught, but word processing is a must.
- *Take initiative/work independently.* Your assistant must be a self-starter. They must know what to do when you are on the road. You will be in and out of the office much of the time, or you will want the ability to be. Make sure you hire someone capable of running things if you are out of town. Can they handle calls? Make decisions? Make good judgment calls? Will they work when you are not there watching them?

Some of my best part-time employees are women who didn't *need* their jobs; they *wanted* their jobs. This makes a huge difference in the way they perform at work. When someone needs to work, you would think that would be enough motivation; however, if they are not self-motivated it is not enough to keep them doing their best every day. If someone wants to work, that is enough motivation. This is just a guideline—I have also had several full-time employees who did need their jobs who were fantastic workers also.

Wendy's Advice

If you are hiring someone part time, you might want to consider someone who doesn't *need* a job but, rather, someone who *wants* a job.

CHAPTER 18

Where to Go from Here: A Step-by-Step Action Plan

Make $120,000/year in real estate investing, part-time (10 hours per week), starting with less than $5,000 of personal net worth!

I am excited to share my action plan with you, as this is the number one problem for those wanting to get into real estate but are not sure where to begin. Figuring out where to take that first step the day after attending an exciting seminar can be overwhelming. Many people will buy a real estate investing course and then not know what to do next, so they do nothing. They have wasted time and money learning about tools that can yield them much income, but they don't use them.

I have asked many other speakers/educators and students around the country about this problem. "Where do I begin? How do I get started? What exactly do I do to implement the course I purchased?" Most courses assume you understand how to get started and what to do next, but the reality is that most people don't. You are not alone.

The action plan outlined here will guide you to success. If you

want to make more money than the ad indicates, then do more of each task. If making half that amount is fine, then do one-half of the task plan. Tailor the plan to your needs and your abilities. If you work full-time, 10 hours may be all you can do. If you are investing full time, I suggest you beef it up and do more, or add additional strategies (rehabbing, wholesaling, foreclosures, etc.).

Sacrifice is essential in any successful venture. Are you willing to sacrifice something to build wealth? If not, then don't expect to gain financially. Many people wish they could make money, yet they won't do what it takes. These are the same people who continue to believe they will someday win big in the lottery. They want the money thrown in their lap.

I have made many sacrifices over the years. When I first started to invest in real estate in 1985, I was 21 years old. I owned several rental properties. My friends would go out on the weekend and party. I, on the other hand, would spend my weekends painting, cleaning, driving by my homes, looking at new ones, sending letters, and so on. I was building wealth for the future while they were spending theirs. Many nights I would eat popcorn for dinner, when I had spent my paycheck on paint for one of my homes. I learned to be a frugal shopper, use coupons, keep my heat low—all to save money and build for the future. Today I still sacrifice. I watch little to no TV. I don't have time. I travel many times on weekends or do late evening meetings or conference calls. This means time away from my family, and they realize that building for the future affects them too. We all work together for it.

A friend of mine told me a story recently. He said his father was the ultimate story of sacrifice. He had a 3,000-square-foot home in an area that is very nice—home values average approximately $300,000 or more. He was single and had several rental homes, and his sons were all grown and living on their own. He really didn't need much, so he decided to rent out his own home and rent a room from someone else. He could then use the extra cash flow to buy additional homes with his sons and get them started in the business. One night the home he was living in burned down, and he was killed in the fire. Everyone in the house got out but him. It was a horrible tragedy, but his son told me the story of this ultimate sacrifice his father had made for the future. The son is now a motivational speaker and invests full-time in real estate. The sacrifices we make, make us!

This action plan should become part of the goals you have set for yourself. It assumes you have already purchased my course and are planning on buying and selling using primarily lease options as an entrance and exit strategy for real estate investing. You will need to sprinkle some subject-to tasks throughout to add that strategy as well.

From the Wendy Patton Dictionary

Definition: An action plan is a set of steps to be accomplished in order to achieve a goal.

The action plan goal is to earn $120,000 in one year with 10 hours of work per week. This plan assumes no vacations. To take a vacation you must sacrifice—that means putting in an extra 10 hours the week before or the week after. I prefer before, so that you don't get behind in your plan. This plan is meant to be modified and customized to your preferences. For instance, if you find working with Realtors is something you don't like at all, you might want to work more on other areas and develop those in more detail than I have outlined. Also, once you get a personal system going, you can scrap this plan. Use your own system if you find something that works better for you and your personality.

I recommend you attend my intensive three- to four-day boot camp. This boot camp will walk you through many of these steps and give you a huge head start. Check my web site (www.wendypatton.com) for details about the next boot camp.

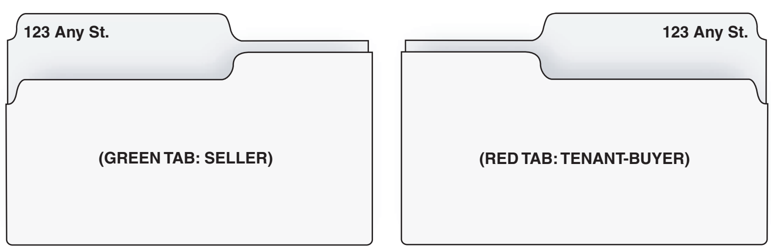
The Action Plan

This action plan will be a week-by-week plan for 12 weeks (around 90 days), then month-by-month thereafter.

Week 1: Getting Started

The following seven steps will help you get your system up and running.

1. *Get office supplies set up.* I assume you have a computer, printer, copier, fax, Microsoft Word, and Microsoft PowerPoint (or access to those items), as well as basic supplies like a stapler, scissors, paperclips, notebooks. I recommend that you purchase the legal size file folders with half tabs, alternating left and right. I use right-tabbed folders for my tenant-buyers, and I mark them with a 1/8-inch red line across the top part of the tab. I use the left-tabbed folders for my owners/sellers, and I mark them with a green line across the top part of the tab (green for money). Each property you acquire will have two folders, one red and one green.



Anything that is between me and the owner goes in the green folder, and anything between me and the tenant goes in the red folder. The same property address is on each tab, just on opposite sides with different colors. If a tenant moves out of a home and doesn't buy, I move their papers out and the new tenant's in. I keep the old ones for a couple of years—you can mark them by name or address, your choice. If they end up owing me money, the folder goes in a different drawer, but that's a separate discussion.

Each of the folders will also be equipped with the checklist for buying and selling. This way you are sure to get everything you need in each folder. In all real estate, documentation is key. If I have a conversation with a tenant, I put notes about it in the folder—handwritten or typed is fine. Keep everything documented and filed.

Set up some Realtor folders also, one for strong listing agents and one for agents who need follow-up. Keep any potential agents in

the strong agent folder. Print the listings from homes magazines or when an agent is published in the local paper for being the top listing agent. In the follow-up folder put copies of your letters in order of when they were mailed. You will then be able to see when you should send a second letter out.

You will also need a week-to-week calendar to follow this plan. Put all action items in the calendar as well as any follow up items. For instance, if you have to call a seller or Realtor back in 30 days, put it on the calendar.

You will need some accounting software, such as Quickbooks, or a ledger to track all financial transactions for this business.

2. *Join Pre-Paid Legal.* Pre-Paid Legal will cost you up to $25/month (some states vary with plans and costs) and will be one of your best investments. You will have access to a law firm in your state that is top-notch. You can use this firm to ask any questions you like, review personal documents, draft your will, review your LLC documents, get legal advice, fight moving traffic violations, defend you if you are personally sued, and much more. For most states you can sign up on my web site: www.prepaidlegal.com /hub/wendypatton. See the web site for what is offered in your state.

If you are in a state which will not allow you to sign up on this site, e-mail me or call my office to find out how to sign up. I will be able to help you in some way in any state. (Contact me through www.WendyPatton.com.)

3. *Get your LLC (limited liability company) set up in your state.* Get advice from Pre-Paid Legal to confirm whether the LLC is the best for your situation. Also, find out where in your state to get your name reserved. Once the name is reserved you can use my forms to fill out the operating agreement. Pre-Paid Legal will review one business document per year, unless you have the business rider (which allows many more but is only available in some states). Have them review it after you have filled it out.

4. *Join a local Real Estate Investors Association (REIA) group.* Join a local real estate investors group in your area, if you are not already a member. Be religious about attending meetings. Network, attend one-day seminars that are priced reasonably, and start to get involved in the group by volunteering for group functions. You will soon be voted onto the board, if you want. Just don't overvolunteer—your time is limited! If you do too much for the group, you will lose

focus on your own objectives. If they have a library, check out as many books and tapes as you can on topics related to optioning: landlording techniques, options, subject-tos, and possibly rehabbing. These show up later in this action plan, so don't check out too many up front—it could overwhelm you.

5. *Start your Realtor network.* Contact any Realtors you know and discuss with them on the phone what you are now doing. Use my *Live Realtor Call* CD or the *Working the Realtor System* CD to understand how to explain it to them. Also review the PowerPoint presentation(s) and the script of what to say and how to explain this technique to Realtors.

6. *Read the "for rent" ads in your local newspaper.* This is for two reasons: First, you will find out about your competition, and you will start to learn your rental comparables. Following your local paper will allow you to get a feel for the market. Second, call on 10 ads. Practice. If you get a lead, follow up on it.

7. *Create a credibility kit.* I strongly suggest that you start building a credibility kit if you don't already have one. Although nothing might be in it yet, you will start to fill it soon with pictures of your homes and letters from sellers, Realtors, or possibly tenants.

Week 2

Now that your basic system is in place, here are seven more steps to take you toward setting your business in motion.

1. *Realtor follow-up.* Review "for sale" ads in the paper. Who has several listings? Check out the homes magazines. Who has listings near the area you want to purchase in? Call three Realtors to discuss what you do over the phone. Ask them about any of their current listings. Ask whether any of their sellers have said to them that if their home doesn't sell soon, they might have to rent it. See if they would like you to send them more information. Send three letters to Realtors using the letters in my course. Put these letters in the follow-up folder for four to five weeks from now. You will need to send a second letter at a future date.

2. *Read a book on real estate investing.* I recommend a book on lease options or subject-tos. Get some other perspectives. Search on

Amazon.com to find a good book, or check one out from your club's library.

3. *Set your goals.* Review my goal-setting course. Listen to the CD (one hour) and spend two hours working on your goals and mission statement. Setting goals is essential to what you want to accomplish. This action plan should give you a tremendous start on accomplishing the tasks and on outlining the tasks themselves.

4. *Get an accountability partner.* Find a friend in your local group—or a friend who is also committed to goals. They might be in a different field, but if they are willing to commit to meeting monthly and will hold you accountable on your goals and you on theirs, do it. Be religious about meeting with them monthly to discuss where you are on your goals. In your first meeting each of you will share your goals with the other. You must understand each other's goals so you can assist each other in accomplishment and accountability. If this person won't be comfortable telling you feedback on what you are attempting and on how you are doing, then find someone else. You need someone who is sharp enough to give solid input and tough enough to push you. It will change your life and theirs.

5. *Become licensed or get a Realtor on your team.* This will give you access to the comparables in your area. If you are licensed, then you are set. If not, consider it. Evaluate the pros and cons I have outlined in "Working the Realtor System." I *highly* recommend it! If you are not licensed, you will need to pay a Realtor to help you out or find a web site that will give you enough information to be able to make informed offers. Find a Realtor who is willing to do comps for you—they might be in your real estate group or they might be a friend. You might need to pay them to help you, but only when you are ready to negotiate an offer.

6. *Create five proposals.* Try different offers. On the proposal, try putting together cash-out offers (if you can follow through), lease option, seller financing, or a combination. Put the proposals away to be followed up on later.

7. *Start to build your team.* Meet with a mortgage broker. Find one (or two) who can work with option buyers and with you. Get each of your buyers in to see this person as soon as they move into their home, and have the broker set up a step-by-step plan for each buyer to follow. Get a recommendation on a title company from

them, if you don't already have one. They will know who to work with. If you are not sure where to start with a lender, ask your local investor group.

Weeks 3 through 12

For the next several weeks you will further develop the pieces you have already initiated.

Week 3

- Realtor follow-up. Send three new letters to Realtors using the letter in my course. Put these letters in the follow-up folder for four to five weeks from now, at which time you will send out the second letter. Call one broker in your area to see if you can set up a time to come to their office meeting. Maybe a Realtor friend can work with you to get you into their office. Ideally they should introduce you at their meeting. If you don't want go speak directly to a group, set up an appointment to meet one-on-one with a Realtor.
- Finish goal-setting. Spend another two hours doing soul-searching in a quiet spot and finish your goals. You will review these goals monthly or weekly, depending on how developed you feel they are.
- Read ads. Read the "for rent" ads and call for one to two hours. Follow up on all that seem like good leads. Get in to see as many as you can. Although you may feel many aren't going to work out, it is still worth your time to check them out and practice. Learning how to negotiate and what to look for will be critical.
- Create five proposals.

Week 4

- Realtor follow-up.
- Listen to a real estate course. As you drive to and from work, listen to a taped course on real estate investing on the topics of lease optioning, landlording techniques, options, subject-tos, and possibly rehabbing. Make it something that ties in

with what you're doing or you will start to get distracted in too many directions. The more we learn, the more deals we will find, because the more opportunities we will recognize.

Week 5

- Create five proposals.

Week 6

- Realtor follow-up. Send the follow-up letter to all of the Realtors who received the original letter four weeks ago. If a Realtor said there was no interest for that seller, then send the same Realtor a note on a different listing. Also send letters to three new Realtors.
- Meet with your goal accountability partner.

Week 7

- Create five proposals.
- Review your goals. Update or rewrite them as appropriate. Make sure you are on track.

Week 8

- Realtor follow-up.

Week 9

- Listen to a real estate course.
- Create five proposals.

Week 10

- Realtor follow-up.
- Meet with goal accountability partner.

Week 11

- Read a book on real estate investing. I recommend a book on landlording basics. Learn what you can. Search for one on Amazon.com or check one out from your club's library.
- Create five proposals.

Week 12

- Realtor follow-up.
- Review goals. Review, update, and rewrite your goals as appropriate.

Months 4 through 12

By now you have a good feel for what to do and how to keep your business moving and growing. We'll switch now from weekly to monthly tasks.

Month 4

- Realtor follow-up.
- Listen to a real estate course. Listen to another course or set of tapes/CDs on topics related to lease optioning, landlording techniques, options, subject-tos, or rehabbing.
- Review goals. Review your goals and update them as appropriate. Make sure you are on track. Rewrite or update your goals that need to be updated.
- Attend your local REIA meeting. Make this a monthly priority.
- Meet with your goal accountability partner.
- Create 10 proposals. I recommend 10 if you have not secured enough deals in the previous months. Otherwise, adjust the figure accordingly.

Month 5

- Realtor follow-up.
- Review goals.
- Listen to a real estate course.
- Attend your local REIA meeting.
- Meet with your goal accountability partner.
- Create 10 proposals. Again, adjust this figure as appropriate for your current situation.

Month 6

- Listen to a real estate course.
- Review goals.
- Attend your local REIA meeting.
- Meet with your goal accountability partner.
- Realtor follow-up.
- Read a book on real estate investing. I recommend a book on subject-tos.
- Attend REIA meeting.
- Create 10 proposals. Adjust the number to fit your current situation.

Month 7

- Realtor follow-up.
- Review goals.
- Attend your local REIA meeting.
- Meet with your goal accountability partner.
- Create 10 proposals. Adjust the number to fit your current situation.

Month 8

- Listen to a real estate course.
- Review goals.
- Realtor follow-up.
- Read a book on real estate investing. I recommend a book on rehabbing.
- Attend your local REIA meeting.
- Meet with your goal accountability partner.
- Create 10 proposals. Adjust the number to fit your current situation.

Month 9

- Realtor follow-up.
- Review goals.

- Real estate course.
- Attend your local REIA meeting.
- Meet with your goal accountability partner.
- Create 10 proposals. Adjust the number to fit your current situation.

Month 10

- Realtor follow-up.
- Attend your local REIA meeting.
- Meet with your goal accountability partner.
- Create 10 proposals. Adjust the number to fit your current situation.

Month 11

- Realtor follow-up.
- Listen to a real estate course.
- Attend your local REIA meeting.
- Meet with your goal accountability partner.
- Create 10 proposals. Adjust the number to fit your current situation.

Month 12

- Open Up a Roth IRA. Choose a self-directed IRA management company. Equity Trust in Ohio is a great company. Put in $3,000 (or maximum allowed). This will be the start of year two for you. You will want to purchase a home on an option during year two using your Roth IRA, and one home per year thereafter in your Roth. This will set you up for the future and retirement. You will soon not qualify for a Roth contribution (you will make too much money). Set it up while you can.
- Realtor follow-up.
- Review goals. You made it through year one. Set your goals now for another year. If you can set them for three to five years, do that.
- Attend your local REIA meeting.

- Meet with your goal accountability partner.
- Create 10 proposals. Adjust the number to fit your current situation.

Each month you will want to follow up with any proposals that are still a possibility. Also, call and continue to build relationships with Realtors who are open-minded and are willing to work with you. This business is one day at a time to build your Future Financial Freedom (FX3).

Wendy's Big-Picture Advice for Lease Options and Subject-Tos

- Don't assume the economy will always remain strong. (For the first 15 years I invested, I didn't know anything different than a seller's market. We always had appreciation, everything was hot.)
- Pace yourself (in money and time), so you don't burn out. Buying too many properties too fast can leave you with too much to handle, too many credit cards, and too much debt. Figure out how many houses you can handle based on your current circumstances. Control your growth.
- Be careful choosing homes. Eventually you will have more homes than you will be able to handle. Cherry-pick your deals. Don't get sloppy. Continue to evaluate each deal on its own.
- Find the good tenant buyers.
- Practice good management techniques.
- Don't let anyone tell you that you can't do it!
- Cash the checks and live happily ever after!

GLOSSARY

Below are some terms and definitions for real estate investors. These are Wendy Patton's definitions—not Webster's.

1031 exchange an IRS section that allows a person to exchange their like kind property for another property, of equal or greater value, and therefore defer (not avoid) the capital gains on the first property.

CMA Comparative Market Analysis.

dealer status A "Dealer" status makes what you do as a real estate investor, in the eyes of the IRS, self-employment income (which is much worse for taxation rates) versus ordinary income. The IRS can assume that you are not investing but just dealing property. One way this happens is with multiple rapid buys and sells during a short period of time. This is not something to worry about unless you are really doing a tremendous amount of volume in one entity (i.e., LLC). If you are doing various types of investing, at least keep the types separated into different entities (i.e. all rentals together, all lease options together, all rehabs, etc.). Talk to your tax advisor to get more information, but please don't get paranoid on this. Just do the business and make money.

double dip Realtors usually divide commissions 50/50: 50 percent to the agent who works with the seller (the listing agent) and 50 percent to the agent who works with the buyer (the buyer's agent). A double dip is when a Realtor is able to work with both the buyer and seller and collect the entire commission.

due on sale a clause in most mortgages that says if the owner sells the property or conveys interest in it to anyone, the bank can call the

entire mortgage due immediately. It is rare that this happens, but both lease options and subject-tos can violate due on sale clauses by passing along an interest in the property.

earnest money money given in good faith by a purchaser of a home; a deposit to purchase a home. Applied to the purchase price at closing or forfeited if the purchaser backs out.

escrow (1) Escrow accounts are non–interest bearing bank accounts in which you can deposit earnest money received on a property.

(2) Escrow can also be a way of closing on a property. To "close in escrow" means that the title company or attorney prepares all the paper work but does not release any of the originals to anyone until something else happens (i.e., another deed is brought in to the title company and shown, another $200 is received from the buyer, etc.).

foreclosure When someone owns a home and they can't pay the mortgage payments, the bank will "foreclose" on the home, taking it back from the owner. In some states the owner would have a redemption period after the foreclosure or sheriff's sale. In most states there is no redemption time. The redemption time gives the owner time to "redeem" the title of their property, but they must pay the entire balance in full in order to redeem. Most owners can't do this without selling to another person or investor. Once foreclosure is started on a seller, only a few lenders will refinance the property for the seller.

FSBO (pronounced FIZZ-bo) an acronym for "for sale by owner," referring to properties that are sold without a Realtor, but by the owner individually.

land contract a contract for deed. In a land contract situation the seller usually owns the property free and clear. The seller in effect becomes the bank and only gives up the deed when the buyer's contract is paid in full. For a buyer, a land contract is better than a lease option because it says that if you make all the payments you get the deed. A land contract is not as strong when you are selling. The reason I don't like land contracts is that they are concrete sales

rather than a lease. A land contract violates the due on sale clause, although it will probably never get a loan called, and it requires a foreclosure or forfeiture procedure if the buyer doesn't pay. If you go through a foreclosure or forfeiture, usually you will get only the home back, and not receive any money judgments. It can take months.

land trust a way to hold title to a home that camouflages the ownership. This is not an asset protection tool, but tied in with LLCs it can be very effective in asset protection and camouflage. This is used primarily so that no one will know the real identity of the owner. It is also used many times to avoid due on sale, seasoning, and the like. Many investors use this technique to hold properties. It works like a company and can be named as simply as "Joe Smith's Land Trust." You can deed your property into it and thereby prevent the due on sales. Liens can't be attached to it. I don't use it with my sellers because most of them would find it scary and confusing, but it's an absolutely legitimate way to operate.

lease option A lease option is like a rent-to-own. You have the right to purchase the property, but you are leasing it in the meantime. In a lease option, the seller is obligated to sell, but the buyer is not obligated to buy. An option gives an optionee a right to exercise a privilege. In a lease option it is the right to lease and also the right to purchase a piece of real property—real estate. A lease option involves gaining control of a property but not ownership—just the right to possess a property now and purchase that property at some future date with terms you define today. With a lease option you can get 5 to 10 percent above the retail value of the property just by offering special terms.

lease purchase This is similar to a lease option, but a lease purchase has no option. Technically the buyer is guaranteeing the purchase of the home. Lease purchases work well only when the buyer is actually able to make this guarantee.

Memorandum of Option a document that records the optionee's interest in the property. It prevents the seller from selling the home or

refinancing during the option period. It also starts the optionee's seasoning of title.

MLS Multiple Listing Service—a database and computer system which has all of the homes listed by Realtors. In most states only licensed Realtors can access this data.

option An option gives an optionee a right to exercise a privilege. It gives the optionee the right or privilege to buy, within a given time period, for a given price. Options are used heavily in real estate, but most options are used in commercial real estate (i.e., you option a piece of property on the corner of two busy highways, then find a buyer, like Walmart, to come and develop it. That is when you would exercise your option. If you don't find a buyer, then you wouldn't exercise your option).

performance mortgage A performance mortgage is similar to a regular mortgage on the seller's property to guarantee that they will sell you the property. It gives you a lien/mortgage on the property, but only on a dollar figure if they don't perform and sell the home to you. It's only based on performance. It puts you on title, so if their first mortgage goes into foreclosure, you would be notified because you are a mortgage holder.

PITI principal, interest, taxes, and insurance—a full mortgage payment.

PI principal and interest payment. Taxes and insurance are paid by the owner directly.

PMI private mortgage insurance. This is usually required on all mortgages that have less than 20 percent down. It is normally a monthly payment added to the mortgage payment, insuring that part of the loan (the part that is greater than 80 percent of the original purchase price) for the lender.

rehabbing Rehabbing a property is when a person buys a fixer-upper and renovates it, making the property look new and beautiful. Each level of rehab is determined by the investor and price range of

the home. A rehabber would not rehab a million-dollar home the same way they would rehab a $15,000 home.

retail value one hundred percent of market value—the price at which Realtors list and sell homes.

sandwich lease option A sandwich lease option is where you have a lease option with the seller and you sell the home on a lease option to another buyer. You are in the middle.

seasoning the time between when an investor buys a property and turns it around to sell it for a profit. Seasoning starts when you record the deed or the Memorandum of Option. When you get an option from the seller, record the Memorandum immediately so that the seasoning can begin. Wherever you record a deed, hand-carry it to the courthouse immediately. Never put it in the mail.

seller financing When the seller owns a property with no existing mortgage on it—free and clear—they can sell the property to a buyer and hold the mortgage on the property themselves, rather than using a bank or other lender. This will work when the seller wants a good interest rate or when the buyer can't qualify for a mortgage yet but has a good down payment.

seller holdback typically a second mortgage on a home the seller is selling. The buyer gets a mortgage for most of the sales price, then the seller holds a second mortgage for the balance or some portion remaining. This is another type of seller financing.

short sale When a bank is owed a certain amount of money on a home, but the owner is going into or is already in foreclosure, shorting means the bank will accept a significant discount on the mortgage balance to get rid of their deal that isn't performing. Banks do not like bad loans. They are in the business of lending, not of owning real estate. They want bad debts off of their books, and quickly, so they can make new loans.

subject-to A subject-to deal is when the seller deeds the property to a buyer, subject to the existing mortgage. The buyer makes the

mortgage payments on the old loan but does not get a mortgage themselves to acquire this home. The seller transfers the title but keeps the existing financing in place; therefore, they don't own it, but they are still liable for the existing mortgage if the buyer doesn't make the payments. It stays on the seller's credit report. This is great when the seller is in trouble or wants out very badly. Many sellers will deed you the property, but usually only when (1) they are uneducated about what it really means, (2) they trust you very much to pay their mortgage, or (3) they are in financial trouble and need to get out from under it immediately. This scenario can help a seller improve their credit, when you pay the payments on time, especially if they were in foreclosure before you took over the title and payments.

title insurance insurance insuring the clear ownership and title for the new owner.

RESOURCES

Wendy Patton: www.WendyPatton.com
Pre-Paid Legal: www.prepaidlegal.com/hub/wendypatton
Fair Housing Act: www.usdoj.gov/crt/housing/title8.htm
NAR (National Association of Realtors): http://Realtor.org
National Real Estate Investors Association: www.nationalreia.com
Neighborhood Scout (subscriber-based service for finding neighborhood appreciation rates): www.neighborhoodscout.com/
Property Buying Tours (hot market buying trips), www.PropertyBuyingTours.com
Real Estate Seminars: www.FortuneMakersSeminars.com
Realty Times (for news and appreciation rates): http://realtytimes.com/
Rental listings: www.rent.com
RentRight property management software (they have a free trial that you can download): www.rent-right.com
U.S. Department of Housing and Urban Development: www.hud.gov

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Fast Cash

With Quick-Turn Real Estate

How anyone can quickly turn single family houses into cash without money or credit.

Ron LeGrand

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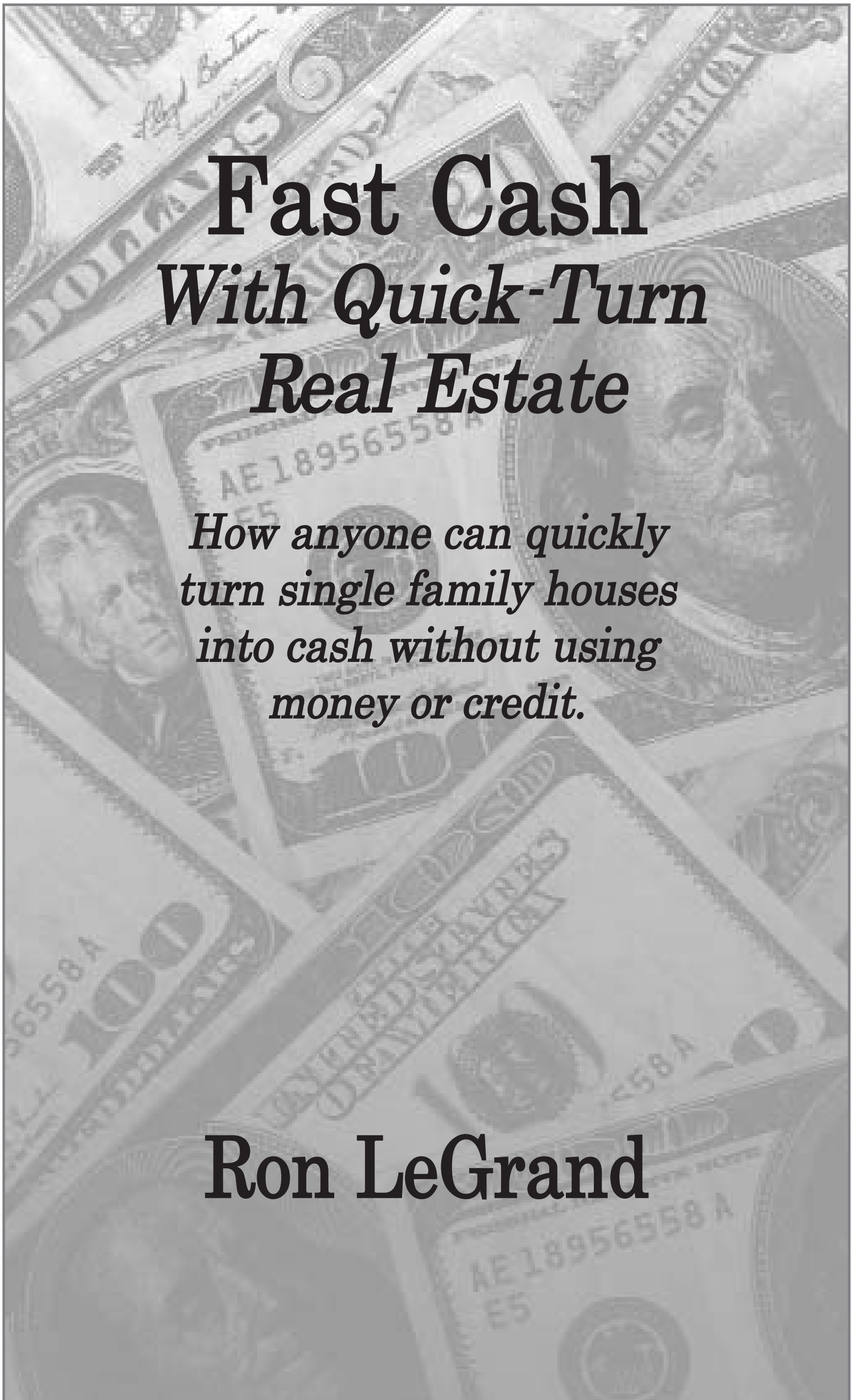
Fast Cash
With Quick-Turn
Real Estate
How anyone can quickly
turn single family houses
into cash without using
money or credit.
Ron LeGrand

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ACKNOWLEDGMENTS

This book is the result of many years of learning in the school of hard knocks. Its principles have evolved out of my experience buying and selling houses, something I've done every day for 14 years. I wasn't born with this skill. I learned it. And you can learn it, too.

I have been successful in real estate because I took action and because I asked for help when I needed it. Equally important has been the support of people who are close to me. It is important to recognize their contributions to my success in the world of residential property investment.

First, I want to thank my wife, Beverly, for blessing me with a happy, 30-year marriage and for being at my side while I was learning to Quick-Turn houses. We've been through good and bad times together, and we agree the good times are better. But, our true wealth is our four children and eight grandchildren.

Many thanks also to my daughter Vicki, my son-in-law Bobby, and to every member of my great staff for their invaluable help during the making of this book.

I am grateful to Mark O. Haroldsen for being an important influence in my life. Not only have I learned a great deal from Mark personally, but over the years his company, The Financial Freedom Report, has provided the educational format to provide me with the constant stream of information and motivation that was crucial to my success. Thanks, Mark and company! Keep up the good work.

Mark's first book, *How to Wake Up the Financial Genius Inside You*, had a great impact on my early progress. That book has touched the lives of more than two million readers; its message is as fresh and relevant today as it was when it was written.

I also wish to thank Robert Allen for his contribution. One of his two-day seminars first opened my eyes to the world of real estate. That began the legacy I'm now passing on to those whose lives I touch.

Above all, I would like to acknowledge and dedicate this book to you, the reader, and your future success in real estate.

PREFACE

When I began to write this book, I planned to write an autobiography to impress you with my brilliance and success over the past 14 years. Then it occurred to me you could care less about my accomplishments. You want to know IF and HOW this book will help you!

Bear in mind, I've organized the contents clearly and logically so you can quickly achieve a working knowledge of my Quick-Turn real estate business. These pages include all the practical information you need to benefit fast by using the techniques I teach.

If you like what you read, and you put my words into action, this book will be the beginning of your financially rewarding career in Quick-Turning houses.

Whether you are a beginning investor or a pro who has already bought and sold many properties, this book will provide valuable new information about making Fast Cash. Regardless of your level of expertise, you will learn new approaches to making money faster, safer, and easier than you ever dreamed possible. This information will also motivate you to continue to learn and grow by welcoming new ideas and taking action in your everyday life.

One of the hardest things for me to learn as an investor was that I did not have all the answers. (As a matter of fact, I still haven't even heard all the questions!) I continue to buy books and tapes, and I attend seminars regularly even though I have been in the business for 14 years and have turned more than 1,000 houses. But, we all need to learn constantly to be competitive.

Besides giving you new ideas, this book could cause old ideas to resurface and trigger actions that will enable you to reach goals you previously had thought impossible. Pursue your dreams with dogged determination. This is America, and

nobody has to sit in the cheap seats. At the end of your life, you won't regret the things you did, but you will regret what you left undone. Life is too short. Don't grow old lamenting lost opportunities.

You control your life and almost everything that happens in it. You can choose how much fun you have, how much money you make, and how well you'll live when you retire. Riches and fulfillment are abundant for the people who have knowledge and use it wisely. I'll help you gain the knowledge you need, but you are the one who must choose to act on it. What will you choose? A few stale crumbs, or the whole tasty loaf?

Read this material, underline it, and use it. Take maximum advantage of my 14 years on the street honing the techniques I teach. Do what I ask you to do, and you will have the same kind of freedom and abundance in your life that I enjoy. Consistent, persistent action is the key to making this happen. I encourage you to stretch — to do things you haven't done before so you can have things you haven't had before.

Who's in control here? You should be. But if you aren't, I'm going to teach you to take control — of your life and of your destiny. There's no better time to begin than NOW!

Ron LeGrand

FOREWORD

By Robert Allen, Best-Selling author of *Nothing Down*, *Creating Wealth* and *The Challenge*

Everybody has a dream. For many people that dream is making a better life for themselves and their families. And there are as many different ways to make that happen as there are people trying. Some people work eighteen hour days at a mom-and-pop business, some fight their way up the corporate ladder, and others spend their meager paychecks on the weekly lottery. The approaches are drastically different, but the dream is exactly the same. They all want something better.

If you're working for somebody else, you know that reaching that goal is exceedingly hard. You may be able to scrape by, riding someone else's coat tails, but to really make it big, you have to make a leap of faith and do it on your own.

Fourteen years ago, a dirt-poor, bankrupt auto mechanic took that leap of faith. He borrowed four hundred fifty dollars from friends and family, hoping what sounded like an unbelievable promise was the answer to his dream.

That mechanic was Ron LeGrand. And the money that he borrowed all those years ago was to attend one of my seminars. This was the beginning of Ron's real estate education.

Within a few months, Ron owned over 70 properties. He was paper-rich. But soon he sat down to pay his monthly bills, and realized he didn't have the money in his account to cover them. It was a wake-up call for Ron. He realized he needed to develop a way to make cash quickly from real estate. This was the beginning of his Quick-Turn System.

Since that time, Ron has quick-turned over 1100 properties, each one adding to his personal knowledge, wealth, and the Quick-Turn System. Ron doesn't have to scrape anymore. He drives a Mercedes, owns a huge, beautiful home, and never worries about the monthly bills...he's a millionaire, not just on paper, but in real life.

Over the years, Ron has taught his System to thousands, with amazing success. And it's easy for me to see why. His frank style and direct approach appeal to folks who want straight talk on how to make it big.

Realizing his dream of making his life better, Ron's goal now is to help people all over the country do the same thing. And I'm sure he'll succeed. Not since my book *Nothing Down* has there been an educator who knows more about the subject of Quick-Turning houses than Ron LeGrand.

If you're looking for a way to make part-time income; if you want to start your own business; if you're finally ready to make it big, then you've picked up the right book. I encourage you to read on...financial independence is in your hands.

Bob

KEYS TO SUCCESS
in Quick-Turn Real Estate

Anyone, including **YOU**, can profit from Quick-Turning single-family houses in days. You don't need credit or partners, and you need little or none of your own money. But you do need the **KNOWLEDGE** contained on these pages . . . for knowledge, converted to action, is the **KEY TO SUCCESS**!

Section I
Winners All Around

Do what others won't for five years,
and you can do what others can't
for the rest of your life.

Anonymous

Chapter 1

Fast Cash in Days, Not Years

I started in the real estate investment business after attending a two-day seminar back in 1982. Luckily, everything I learned there worked. I quickly discovered that finding the bargains was not difficult, but making the offers — especially the low, low offers — takes a lot of guts.

When you're just starting out, fear is normal, but it shouldn't stop you. If you're not a little scared when you begin to buy houses, you must have nerves of steel. Making money in real estate is not difficult, but it does take persistence, knowledge and courage.

Not long after that seminar, I had 276 rental units. That may sound wonderful, but I sat down to pay the family utility bills one day and discovered there wasn't enough money to cover them, which led me to take a hard look at how I had been investing. I had become a paper millionaire quickly. It had been easy to accumulate equity, but I had no cash. And you can't eat equity or pay bills with it. That's when I started to look for cash flow. It was this chain of events that led me to develop the Quick-Turn method to generate cash.

A person can make $10,000 to $50,000 or more in this business with just one deal, even in a low-priced market. It doesn't take many deals like that each year to make a good living. People often believe that real estate investment is risky, but in reality, many nine-to-five jobs are even riskier. Talk to the thousands of people who have been recently laid off about their marvelous "job security!"

Most people work all their lives to get pensions equal to half the wages they were earning — wages that didn't cover their bills. But you are different. You have the opportunity to take the future into your own hands and build a cash flow that will continue whether you have a job or not.

The first step is to take care of today's financial needs, before you start building your empire. Once those needs are met, and you possess the ability to generate cash, there are countless ways to turn that cash into a consistent flow and provide for a secure retirement.

You Don't Have to Wait

Some people think the only way to make money in real estate is to buy a property, sit on it for 20 or 30 years, contend with bad tenants, plugged toilets and negative cash flow, then sell for a profit. But that assumes there is something left of the house, and that inflation hasn't decreased the property's value. It also assumes that, during the holding period, the owners don't get so frustrated with property management that they just throw up their hands and quit. My experience has shown that happens to many people.

My intention is not to discourage the use of real estate as a retirement tool, or to indicate that people shouldn't hold property for the long term. In fact, I honestly believe that the greatest profits take time to develop. Huge fortunes have been amassed (some accidentally, it must be admitted) by people who have sat on property for a long time, then awakened one day to find the value increased by 10, 20, or even 100 times the purchase price.

But most people don't have the luxury of time, or the blind luck to make money while they sleep. In addition, most people are not properly equipped with knowledge and a clear-cut action plan before they start to buy properties.

I've seen many people who think that owning a few houses will make them rich enough in five years to retire and go fishing all day. More often, the opposite happens. The houses drag down the owners, who weren't properly trained to deal with the

problems of real estate ownership. Those owners didn't have the knowledge you're getting from this book.... Knowledge that will keep you, the investor, in control.

A Road Map to Success

If your intentions are to buy real estate to generate more CASH, and if you want to have that cash now rather than years from now, listen up. There is a way to do just that. It involves "flipping houses fast," which I call "Quick-Turning."

During the past 14 years, I have bought and sold more than 1,000 houses for Fast Cash profit. Along the way, I developed a system that anyone who has the desire and willingness to learn can duplicate and make work for them, regardless of their financial condition. We are going to study all the aspects of this system, step-by-step, in the following chapters.

If you think you need a lot of money and good credit, or that you have to be a genius to make money in real estate, FORGET IT. It just isn't so! In this book, you'll learn how to convert houses to Fast Cash, no matter where in America you live and regardless of whether you are wealthy or flat broke. In fact, if you are broke, you may actually have an advantage because you have no choice but to learn before you leap. Those who have money tend to leap before they learn, then blame their failure on the system, the economy, their spouses, their mothers-in-law, and everyone else except themselves. In this, or any other business, you have to learn the fundamentals before leaping.

The three basic reasons to buy non-owner/occupied real estate are:

1. Quick cash profits
2. Monthly cash flow
3. Long-term growth

"But wait," you say. "What about tax shelter?" FORGET IT! Those days are gone. Many properties bought for tax shelters before the 1986 tax change are now owned by the Resolution Trust Corporation (RTC) or some other lending institution. This

is especially true for the large properties such as apartment and commercial buildings which are being sold for a fraction of their former value. I feel sure we are going to see an escalating national debt and much larger savings and loan problems until the government returns incentives to investors in such properties.

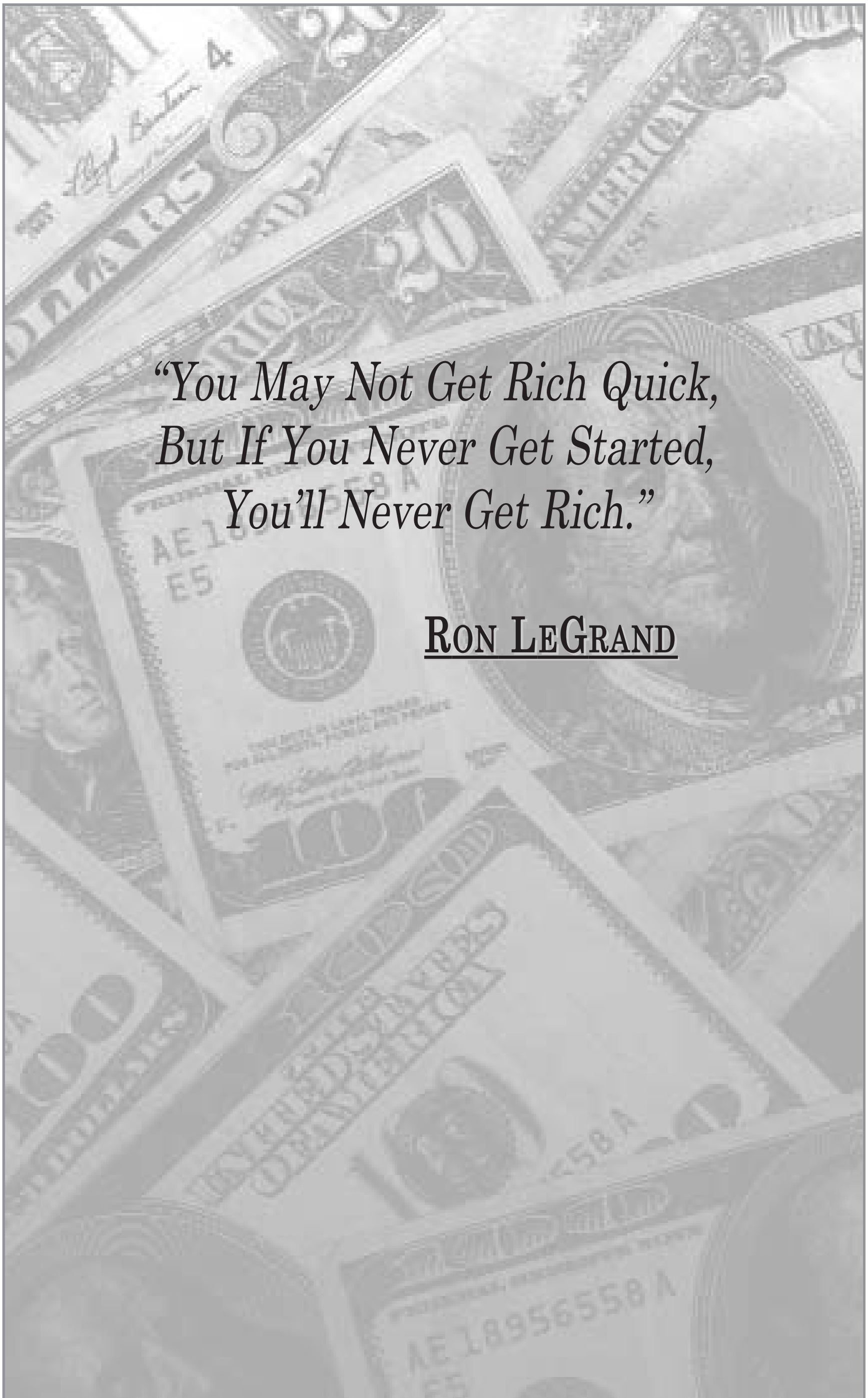
It's wise to have properties in each cash-goal category. Use some deals to generate quick cash now. Those profits can then be used for investing — and for creating other deals to produce a steady monthly cash flow to cover your living expenses. Once you're sure your family's needs are being met, you can afford to invest in some "keepers" for long-term growth. You'll learn more about these strategies in the following chapters. But, for now, I'll assume that you want to know how to make Fast Cash.

Indeed, generating profits quickly through real estate is the primary emphasis of this book. The four key types of Quick-Turn transactions that generate cash will be discussed in detail.

Rewards For Action

One thing is sure: People always need a place to live! Why not be in a business that will never lack customers? Why not work at something that produces paychecks in the thousands, whether you are involved part-time or full-time? How would you like to go where you want, when you want, stay as long as you want, and never worry about what's happening while you're away? And then there's the recognition you'll get for being a person who can find houses for people who never thought they could be homeowners.

Best of all, why not be in a business that's recession proof? You will learn how to make money with real estate in spite of the economy, interest rates, or the market situation. The only real difference between the "haves" and the "have-nots" is knowledge converted to action.



"You May Not Get Rich Quick,
But If You Never Get Started,
You'll Never Get Rich."

Ron LeGrand

It's not the critic who counts: not the man who points out how the strong man stumbles or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, and comes short again and again; because there is not effort without error and shortcoming; but who does actually strive to do the deals; who knows the great enthusiasms, the great devotions; spends himself on a worthy cause, who at the best knows in the end the triumphs of high achievement and who at the worst, if he fails, at least fails while daring greatly so that his place shall never be with those cold and timid souls who know neither victory nor defeat.

Theodore Roosevelt

Chapter 2

Everyone Wins or I Won't Play

Some outsiders are under the impression that the only way to make money in Quick-Turn real estate is to take advantage of people. They picture all of us investors literally stealing houses and putting little old ladies out on the street. Or they perceive us as tyrannical landlords wearing big black hats and operating slum properties unfit for human habitation. Such perceptions are not just erroneous — they demonstrate total ignorance.

In all the years I have been an investor, buying more than 1,000 houses, not once have I ever put a gun to a seller's head and said, "Sign or die." In fact, many times I have found myself hoping the seller wouldn't work with me because I didn't like the looks of a deal. But, I went ahead and bought anyway, to get the seller out of a jam.

Many people don't understand the valuable services real estate entrepreneurs perform for the public. Of course, I wouldn't buy a house if I couldn't make a profit from it, but in many cases I could have walked away and been happier than if I was buying. However, the seller's needs pushed me to take on some project or other that may not have been the best use of my time.

No Fun in Foreclosure

In looking at the real estate business, several elements must be considered. It is more than money. Money is only the by-product of a specialized activity that provides one of life's necessities — shelter. Think about the last sad story you heard

about a family home lost to foreclosure. Maybe you, yourself, have been through hard times and lost your house to a bank. How would you have felt about an investor providing you with a solution when no one else could or would? I can tell you from experience that there are few things in life more humiliating and stressful than lenders hounding you almost daily, demanding payments you can't cough up.

Going through that process destroys your self-esteem, breaks up marriages, and can even cause health problems — or worse. I once bought a house whose owner — the father of three children — had committed suicide under the stress of pending foreclosure. That experience gave me a new outlook on life. While I was buying the widow's house at 8 o'clock one Saturday night, trying to help her stop crying, I decided my measly little problems didn't amount to "a hill of beans" compared to hers.

She had three kids, but she had no income, no job, no food, and now no husband. All of a sudden I switched from the mindset of "How cheaply can I get this house?" to "How much can I afford to give this lady?" She owed about $26,000 on a $50,000 house; the monthly payment was $280. She was six months behind on her payments, and the house needed about $2,000 in repairs. She told me that if I would give her $1,000 and make up her payments, she would deed the house to me.

Now, I'm no angel, and I'm usually pretty reluctant to give up a buck unless it's absolutely necessary. But that night was an exception. I reached into my wallet and handed her $500 cash. Then I told her that, once I had checked her title and she was out of the house, I would give her an additional $3,500. That's $3,000 more than she was asking. Needless to say, she was elated, and I had won a friend for life.

But who really got the best of the bargain? Yes, I made money on the house. And I could have made $3,000 more. But the most important result of the deal was that I was on a high for weeks afterward, and I learned a lesson that will stick with me for life: You can't help someone up a hill without getting closer to the top yourself!

Remembering that experience still gives me goosebumps.

And I'm sure that, as your career progresses, you'll have more than one opportunity to help a similar family solve its problems.

Saving Houses From the Wrecking Ball

In addition to the human element, of course, there's also the matter of the houses themselves. Think of all the houses that are rehabbed by investors every week. If investors don't buy them, who will? What happens to them?

The answer is that they get bulldozed, or they just sit there until they are boarded up and condemned, then fall down of their own accord. True, every once in a while an owner/occupant buys a property to fix up and occupy. But for every one of those, 100 get rehabbed for profit by people like us. We are providing a service to our community by improving the looks of the neighborhood, as well as by increasing the stock of houses and the community's tax base. That, in turn, generates more revenue for the city.

In addition, the rehabbing requires contractors and laborers who benefit from the work. All rehabs require materials which are supplied by vendors who buy from manufacturers — all businesses which create jobs and employ people. And the process generates fees for professionals such as surveyors, REALTORS®, appraisers, termite inspectors, closing agents, title clerks, attorneys, etc. Stop the rehabbing of houses, and all those people suffer directly or indirectly. Many could not exist. So, yes, people who buy and fix houses certainly are performing a public service.

Sharing the Wealth

Let's look at aspects of real estate investing that have nothing to do with the rehabbing process itself. Have you ever known someone who has had to make two house payments simultaneously because he purchased a new home before the old one was sold? When I offer a lease/option deal, the seller usually accepts because he is seeking debt relief.

Who besides an investor is going to offer debt relief when a house doesn't sell? The REALTOR® maybe? Hardly. REALTORS® attempt to sell houses at little or no risk to themselves. Making a seller's payments while tying up a house for six months is not part of a REALTOR'S® service.

Could a seller rent the house to a tenant? Possibly! More often than not, all he or she would wind up with is an expensive lesson in landlording, and a bigger problem. Renting the house could also make it extremely difficult to sell. It would rarely be clean, and getting access to it would be complicated. Of course, the tenant would not be cooperating with the seller if it meant that, when the house was sold, the tenant would have to move.

So we investors step in and guarantee payments and repairs, and we usually get the house sold in time. The seller's problem is solved, and we have provided a public service. (Lease options are discussed in detail in Chapter 8.)

Believe it or not, while we're working to help sellers by saving them from the foreclosure machinery of the big bad banks, we're also performing a service for those banks. And that service, too, trickles down to a wider public. If investors didn't buy houses out of foreclosure or afterward, who would? If the only market was owner/occupants, you would see a drastic decline in housing prices. Moreover, the conditions for getting a loan would become terribly stringent. These factors would slow demand drastically, and all related industries would suffer. Many would evaporate.

There's still another very important group of people who benefit from investors' work in real estate. What about all those owner/occupants who wouldn't have a home of their own without us? I have sold hundreds of houses to first- and last-time home buyers. Many of them needed help solving minor problems and overcoming hurdles. I can honestly say some would never have been able to buy had I not made it possible.

Sometimes I helped them get financing. Sometimes I was the bank and owner-financed for them. Without my being the bank and allowing them to bypass rigorous qualifying procedures, most of those people would still be renters today. Usually, investors are the only owner-financing game in town.

Without us, owner financing would be almost nonexistent.

So are we providing a public service by understanding creative financing? You bet. We are providing a service that is extremely important to those families who could not own a home any other way. Incidentally, if it weren't for investors, who would own rental property, and where would all the tenants live?

True, as you become more and more involved with real estate investing, you may get the feeling that you're not always appreciated. Sometimes we catch a lot of flack from government employees, REALTORS®, and other people who don't understand the business. But rest assured, investors will be around as long as people need places to live. There is plenty of business to go around, and investors can make money without making anyone suffer. If any deal is not win/win, just don't do it.

Move on.

Section II
Quick-Turn Tools

The secret of success is constancy of purpose.

Benjamin Disraeli

Chapter 3

Four High-Voltage Cash Generators

Quick-Turn transactions fall into four main categories. Almost everything you do in the house business will follow one of these methods.

Retailing

Buying houses low and selling them high is called retailing. This is the most easily understood method because there are countless books and tapes on the subject. It is the art of buying at a low price, often doing some repairs, then selling at retail price, usually cashing out. There is a lot of money in this method. Some people do this part-time, turning only two or three houses a year, and make more money at it than they make on their regular jobs. We'll discuss the buy low-sell high method in Chapter 5.

Wholesaling

The second method is wholesaling. This is an entire business in itself and generates super-fast profits, usually without ever requiring the title to a property. It's not uncommon to pick up a check at closing, with the seller and buyer present at the same time. Many times I have earned thousands of dollars within two or three days of finding a deal. Successful people in the wholesale business are accomplished at locating good deals and marketing them — primarily to people who are in the buy low-sell high business. The first purchaser is willing to take a

smaller, fast profit and leave the larger profit to an investor who has the time and money to buy, repair, and sit on the house until it is sold.

Some of my students are making a good income by buying, then reselling immediately, only once or twice a month. These deals require no money, no credit, no partners, and no bosses. Believe me, if you locate the deal, there is someone waiting to buy it from you. We'll cover all that in detail in Chapter 6.

ASSUMPTIONS

The third method involves assumptions. Millions of Americans would love to own a home but, for a variety of reasons, either don't qualify for a loan or don't want to borrow from a traditional lender -- even though they do have money for a down payment. With the assumption method, your job is to find good houses with existing no-qualifying loans. Or you can create opportunities through seller financing.

Thousands of existing FHA and VA loans may be assumed by anyone regardless of their credit. The idea is to find houses you can buy with little or no money, and flip them for a few thousand dollars more than you paid for them. Many owners will walk away with virtually nothing just to get the loan out of their names. Because the properties have assumable, no-qualifying loans, they're worth a little more and are easier to turn quickly.

All a purchaser needs to qualify is the down payment you are requesting. This kind of transaction usually takes only a few days to consummate and you don't have to stay in the junk house market to do it. In Chapter 7, you'll learn to manage assumptions with no credit, no partners, and very little training. And, you'll be working in first-class neighborhoods dealing in houses needing no repairs.

LEASE/OPTIONS

The fourth method is to lease/option properties to control them without taking title. This method works on houses in any

condition, in any price range, and with any underlying financing. You can reap big profits without ever owning the house, while paying no closing costs to buy or sell, doing no repairs, and using very little or no money. In Chapter 8, you'll learn how to lease/option without even making monthly payments.

Taking Action to Get Started

You may be thinking all this is great, but I'm sure you're wondering where and how a person like you might get the money, find the bargains, and then get the houses sold. Relax! All of your questions will be answered in this book, and all your excuses for not taking action will be eliminated. When I began, I was bankrupt and broke, and I had absolutely no previous experience. That was about 1,000 houses ago. When I remember how little I knew when I started, then look at how far I've come, few, if any, excuses make sense.

Some of my students do 50 to 60 deals a year with an average net profit of $15,000 each. Remember, every one of those investors began just where you are today. By the time you finish this book, you will realize all you have to do is find the good deals. If you can find the deals, the money is easy to obtain. In fact, it's easy to obtain everything you need to get started in real estate investing.

The best place to begin, however, is with education. Just reading this book shows you're on the right track. Ignorance costs dearly. Many of the best deals in your real estate career will come from sellers who refuse to read a single book on the subject. They will end up selling their properties for tens of thousands of dollars below value.

> *Don't stop with this book! You should constantly be learning, attending seminars, reading other books on the subject, and using what you learn to polish your real estate investing techniques. My friend James A. Ray once told me an interesting story. When he was starting in the business, he met someone who had bought a real estate seminar package,*

but had never listened to it. James bought it from the man for a small price and took it home that evening.

He listened to all the tapes in one sitting, studying the booklets that came with them until 4 a.m.! The next day he started to apply the principles he had learned, and bought his first investment house for $8,000. After some minor repairs, he lease/optioned the house to a couple for $30,000 at $500 a month. Ever since then, he has been investing in real estate full-time.

He now has a personal collection of about 80 seminar packages. His reason: he feels that he either saves or makes money every time he studies one. What would have happened had he chosen NOT to buy that first course?

As this story illustrates, just reading books and attending seminars is not enough. Like James, you must take action! Get out there and try. Put the principles you learn from this book into immediate practice. It is action that will separate you from the nine-to-five workaday crowd — the same people who will eventually retire on 50% of what they can't live on today!

You must focus on the word "now". You want cash **now** or cash flow **now**, using the four Quick-Turn methods: retailing, wholesaling, assumptions, and lease/options. But, to turn your dreams into reality, you must **TAKE ACTION!** Action determines whether you realize your goals or not. You can do a little and get a little, or you can do a lot and get a lot, but nothing will ever happen for you until you act.

Taking action can be making a phone call to a FSBO (For Sale By Owner - pronounced *"fizz bow"*), or it can be getting a REALTOR® to locate 20 houses that fit your investment parameters. A little action taken every day will grow to a big benefit in time. A lot of consistent action will yield a lot of benefits in a short time. I didn't invent these laws, but I have much more wealth in abundance because I follow them. Take action, ask, go, do, and your life will take a serious turn for the better.

This reminds me of a letter from a student who chose to convert my home study course into action. His name is Dave Doucette, and he is from Long Mont, Colorado. I spoke for the ***Financial Freedom Report*** *in Las Vegas in September 1991. Dave's wife saw me there and became excited about what she heard. Dave did not attend with her, as they tell the story. But after hearing me, she called him to say she was buying my course for him. He told her that if she felt that strongly about it, buying the course was OK. At least that's his side of the story. I haven't confirmed with her whether he put up a fight or not. Anyway, she took the material home, and he began to study it.*

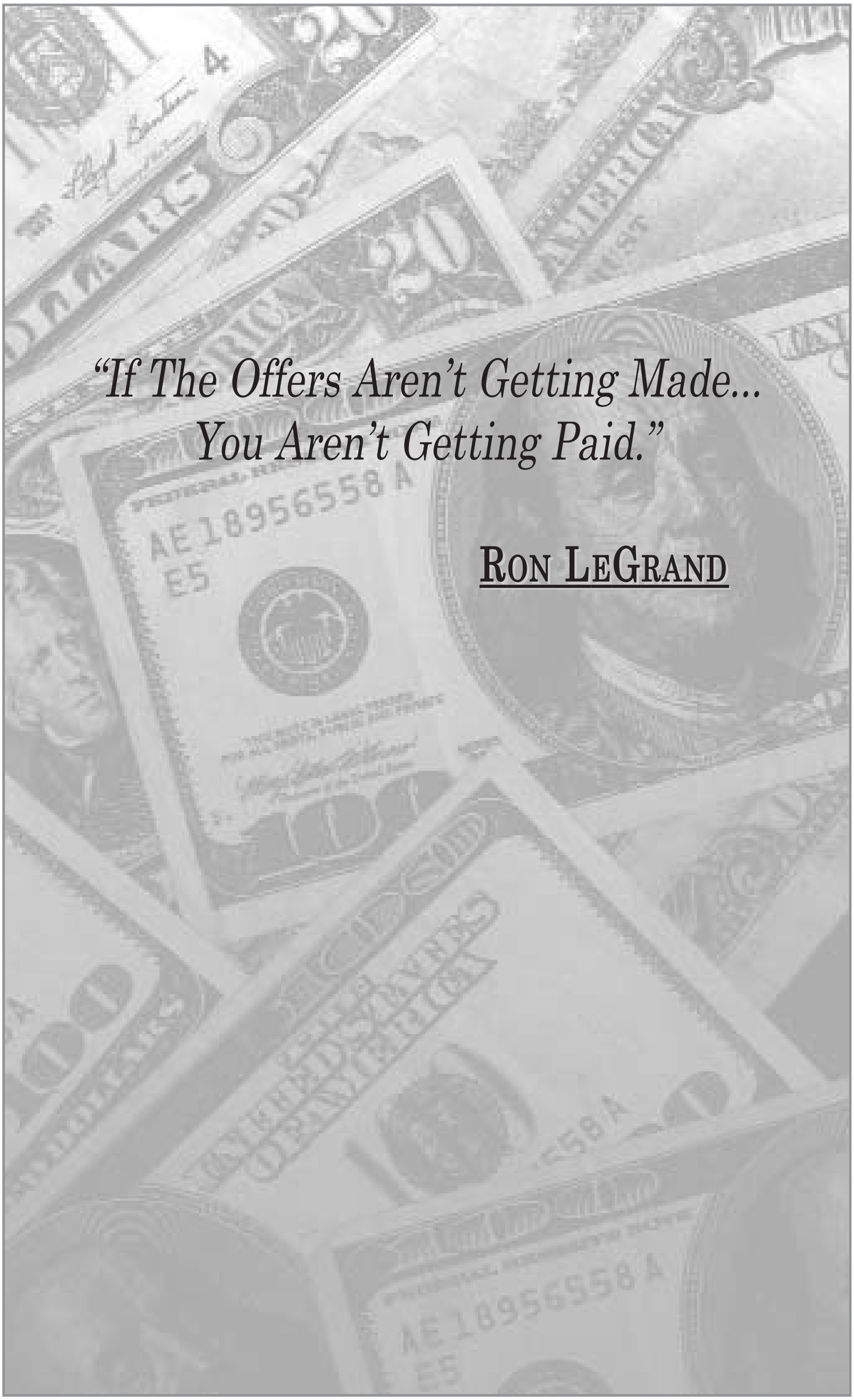
I had no idea Dave and his wife even existed until I received a letter from them some months later. In the letter, they explained how they had used my course to net more than $100,000 in just nine months by Quick- Turning a few houses. Needless to say, that letter was the highlight of my day. But the story gets better. I met Dave and his wife in Las Vegas when I spoke there again, a year later. That's when they announced that the $100,000 profit mentioned in the letter had risen to $175,000 in 11 months!

Yes, I'm extremely proud of the Doucettes, and not because of the large amount of money they made. But they were among the fortunate minority of people who possess the ability to seek knowledge so they can recognize opportunity. Dave and his wife converted opportunity to action and took control of their own financial future. Bravo to the Doucettes!

Yet another example of taking action is illustrated by Phil Barnes of Toledo, Ohio. Phil said, "I recently bought and sold a home that I saw For Sale By Owner while we were on your boot camp bus. The owner was a truck driver and hard to find. The house had an assumable, non-qualifying loan with a

$27,600 balance. After putting $3,500 into repairs, I sold it for $47,900, making a net profit of $16,800. I want to say how much I appreciate the boot camp and the information you gave us. As a result, my wife and I are looking for bigger and better things to happen in the future."

Are you ready? Ready not just to read, but to DO something about what you read? GOOD! Let's begin by examining what constitutes a good investment.



"If The Offers Aren't Getting Made...
You Aren't Getting Paid."

Ron LeGrand

Success seems to be connected with ACTION.
Successful men keep moving. They make mistakes, but they don't quit.

Conrad Hilton

Chapter 4

Good Deals Without Guessing

What is a good deal? It all depends on your objectives. A good deal is making the money you want in the time you allot. For some people that's a few days; for others it may be a few hours, a few weeks, or a couple of months. Some investors who are in the rental business believe it should take years to make a profit. I don't believe that and soon you won't either.

Let's illustrate with a real-life example. I once received a call regarding a flyer we had distributed. The voice on the other end said, "Hey, this flyer I'm holding says you buy houses. Is that true?"

"Yes, I sure do," I replied.

He said he had a house for sale. He wanted all cash, and he wanted to close that day. He told me that his mother had died and left him the house with clear title. He wanted to close fast and leave town. I asked him where the house was and how much he wanted.

When he told me the location and that he was asking only $12,000, I immediately knew that this was a great deal. Houses in that area were worth between $35,000 and $45,000 in good shape.

I told him I was interested and made an appointment to meet him there in a few minutes. Notice, I said minutes, not hours or days. When you smell a good deal, you'd better move FAST! You can't wait until it's convenient. If you don't move, someone else will. You can't Quick-Turn in slow motion.

I quickly met him at the house. His mother had lived there. She had four cats, and judging from the smell of the place, they

had never gone outside. Other than that, I figured the house just needed some cosmetics and about $3,000 to get it into shape to sell. I ran through the house, saw what I wanted, and moved to the front yard to do our talking.

"Look man," I said, "you want me to close today, pay cash, clean up this mess, and get the stink out of the house. That's asking a lot. You've got to cut me some slack here!"

"If you can close today, I'll take $11,000, no less," he countered.

"Sign here" was my response.

I took his contract to the title company and told them to put a rush on it because I needed to close that afternoon. Sure enough, he had good title, and I bought the house that day. I used three credit cards for the purchase and spent an additional $3,200 for repairs.

I sold the property immediately for $39,000. All cash! It took exactly two months to the day to close the sale because the buyer got new financing, and at that time I didn't know how to take control of my buyer's new loan process. Today, it would take only 30 days.

My net profit on that one little house was about $23,000. Not bad, huh? By the way, I discovered that the flyer he had referenced was a year and a half old! We'll talk about flyers more in "Finding Motivated Sellers" in Chapter 9.

Four Simple Actions

To stay focused, I concentrate on my objectives. I constantly review in my mind how to find, buy, and sell single-family houses for cash. That's how I came up with my simple philosophy: **Find 'em, Fix 'em, Flip 'em, Forget 'em.**

Calculating Profitability

You should know, not guess, your net profit on a deal before you make an offer, not after you buy and repair the house! One of the most useful tools I have created is the Property Acquisition Worksheet, which is in Appendix A. Look

that form over carefully. It will save you thousands of dollars by illustrating whether the property you are thinking of buying will fit your objectives.

This worksheet is the one I take along when looking at a property. After 14 years and 1,000 houses, I still use this form to lay out all the numbers I need to determine whether a given house will make money or not. The worksheet is the result of taking these steps repeatedly and becoming very successful at it. If you want to reinvent the wheel, feel free; if you want to make money quickly, learn to use this simple document. It will keep you from being shocked when you see the real bottom line.

For example, I found a house with a purchase price of $20,000. The property was in serious disrepair. That's why it was so cheap. It's estimated sale price was $44,500 after repairs. It had an existing first mortgage of $5,000. I gave the seller $5,000 down, and he took back a second mortgage for $10,000, all due and payable in six months, with no payments and no interest, because I knew he would be paid off within that time frame.

My total cost as calculated on the worksheet showed that it would take $10,000 to develop this deal. I paid $20,000 for the house (including the first mortgage balance) and spent $10,000 for fix-ups and other costs. I had $30,000 in it and sold it for a retail price of $44,000, which left me with a net profit of $14,000. At first glance, it had looked as though my profit would be $16,000 to $18,000, but the true amount was revealed when all the hidden costs were considered. Use this worksheet without exception to save yourself a lot of grief.

Selling to Another Investor

The Property Acquisition Worksheet (Appendix A) will also show an investor looking for a wholesale deal how much he can expect to make if he purchases the contract. Just by looking at the completed form, especially the bottom line, he can decide if he wants to buy the property. All the numbers are on the sheet. Remember, it should be filled out before you decide to buy. In fact, you should complete it before you make an offer.

Explanation of the Property Acquisition Worksheet

- Use comparables, appraisals, or your knowledge of the neighborhood to determine the sale price of property before you ever make an offer. Never buy a property until you know this value after fix-up. If you neglect to be careful about this, you're headed for an expensive lesson in the real world.

- **Items 2-9** relate to the purchase cost. Include every applicable item. The down payment is what you will pay the seller at closing. Closing costs vary depending on the type of financing. Talk to your REALTOR® or a lending officer to determine exact figures for your deal.

  The appraisal may be an FHA, VA, or fee appraisal. It depends on financing obtained and may cost between $250 and $400. The termite inspection is paid by either the seller or the buyer. Prices vary from $20 to $75 depending on the size of the property and type of inspection. The survey is performed by a licensed engineer; fees start at about $250. Miscellaneous costs include bird dog fees and fees for putting utilities in your name, to name a few.

- **Items 10-12** deal with repair costs. You can get formal written estimates from contractors. If it's set up so that the contractor will be responsible for all the repairs, and if you have the estimate in writing, it will be the contractor's problem if the actual cost exceeds the estimate. Nevertheless, allow for cost overruns from hidden problems.

  Sometimes, I use several contractors for the same job, such as a roofer, a plumber, and an A/C contractor. This

requires several estimates. In the beginning, I suggest that you get multiple bids on every deal, but only after you have the property under contract. Don't waste time collecting information on properties you're not buying. See if you have a deal, then spend time on the house. Soon, you'll be able to estimate costs without getting bids. You'll learn to make an offer based on your immediate assumptions and verify those assumptions before closing. You'll be able to buy while others are still collecting information.

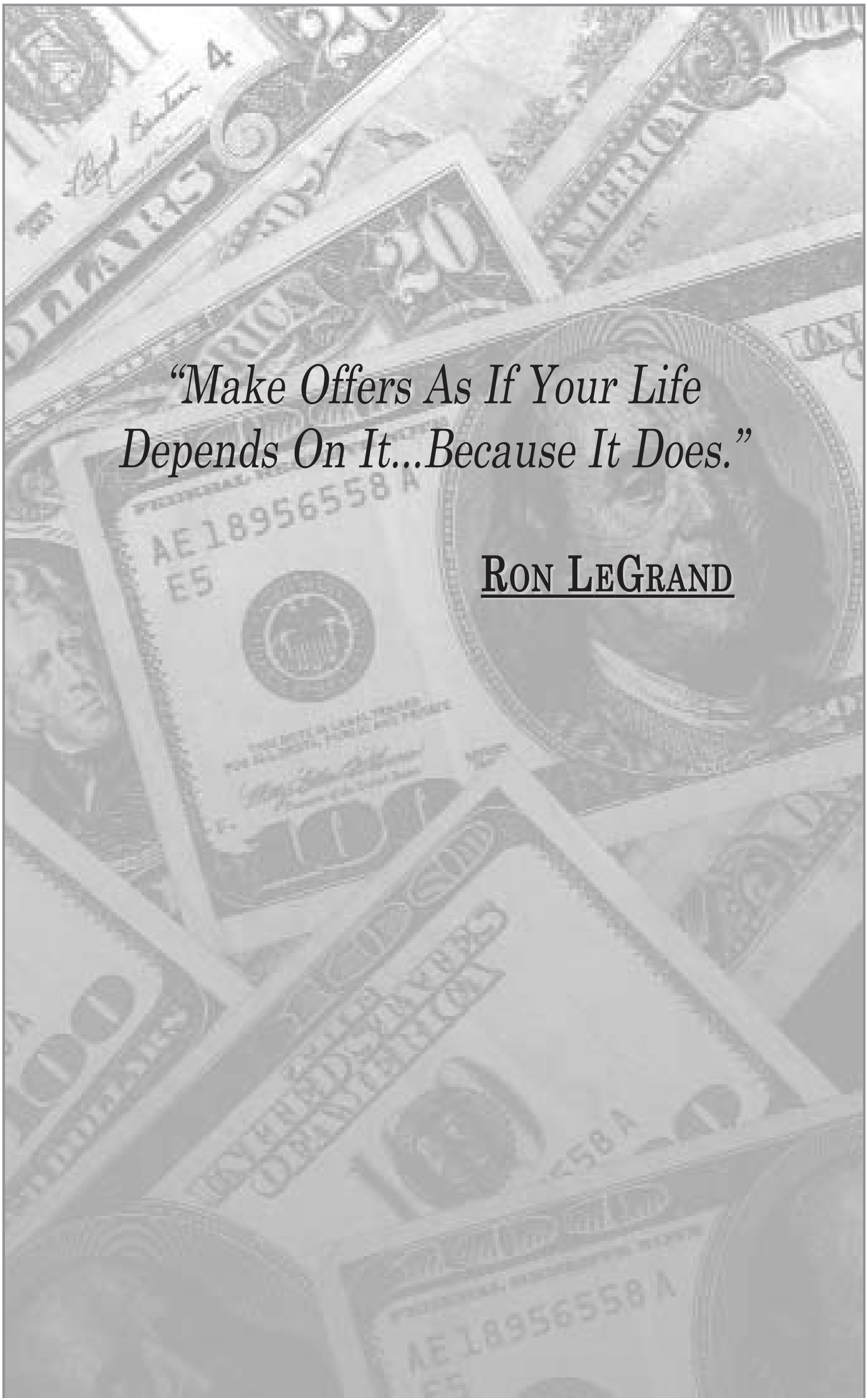
- **Items 13-17** show you what it will cost to hold the property in terms of monthly payments and other expenses. Allow for at least six months' worth of expenses if you're selling retail. The "payments for six months" item refers to the mortgage payment, if any, during the fix-up and sale period. The property tax amount can be found by contacting a title company, an attorney, or a county clerk. In Quick-Turning houses, you will seldom pay any property tax except at closing. Insurance is in reference to a basic hazard insurance policy on the property for the time you own it. Similarly, the figure for utilities refers to the electricity, gas, and water used while the house is in your name.

- **Items 18-21** show you what it will cost to sell the property. This is the cost of actually closing the loan and executing the sale. If you need help estimating these costs, simply call the lender you want to use and give him the sale price. He will prepare a cost estimate for you and tell you what the seller must pay. Remember to use only those costs you are paying, not the total sale costs. Some costs will be covered by the buyer.

Next add lines 9, 12, 17, and 21 and subtract the total from the amount for which you expect to sell the proper-

ty. Then subtract existing mortgages you have to pay off. This gives you your net profit.

Finally, to determine exactly how much cash it will take to buy this property — the bottom line — add items 9, 12, 13, 15, 16, and 20. These are items that require a cash outlay during the holding period. The other items will be deducted at closing.



"Make Offers As If Your Life Depends On It...Because It Does."

Ron LeGrand

The dictionary is the only place
where success comes before work.

Arthur Brisbane

Chapter 5

Retailing to Owner/Occupants

BUY LOW-SELL HIGH

As noted in the previous chapter, there are really only four ways to turn Fast Cash profits with houses: retailing, wholesaling, assumptions, and lease options. Almost any kind of Quick-Turn transaction you create will fall into one of these categories.

One of the most widely accepted methods for making quick profits with single-family houses is to buy low — well below the after-repaired value — then rehab the property to market to an owner/occupant at retail price via new financing. This retailing method I call "buy low-sell high." This kind of deal is concerned with price, whether it involves an all-cash deal, very little cash down, or no cash at all. Most important is your net — the amount you keep after expenses. This is the type of deal that brings in the most money, but it also has the most headaches.

In Chapter 15, I show you how to market these houses quickly. During the past 14 years, I have bought and sold at least 100 houses using the buy low-sell high method alone. You can earn huge profits in a short time by flipping houses. By "short time" I mean 2 to 6 months, on average. An example of this is a house I bought for $22,000 by putting down $5,000 of a partner's money and taking over existing loans. We spent $5,000 of my partner's money to repair the house, which we sold in 30 days for $49,000 with a new FHA loan for the buyer. This whole transaction took 60 days from the time

we purchased the house to the time we closed the sale. However, this is not always the case. Sometimes you hold properties for several months. Don't let an extended holding period put you in a difficult spot. Plan for it going in. Then, if you can sell the house quickly, you get an added bonus.

A Universal Mechanism

I know you folks in the higher-priced markets are laughing at these figures, but believe me, if prices are much higher in your area, you have a definite advantage. In an area like Los Angeles where the houses start at $100,000, it's much easier to make a lot more money with fewer deals.

On my little house, we netted about a 40% profit. However, I don't want to lead you to believe that you should expect a 40% profit in high-dollar markets. The percent of profit is not important; all that counts is the dollars. Would you rather have 40% of my $49,000, or 20% of $175,000? Tough decision, huh?

> *At one of my recent Los Angeles classes, a student told me how he had made a $50,000 profit on his first investment house, mostly by accident. He had simply bought an inexpensive house and done some work on it so his son could live in it. But when he discovered that the house was worth about $60,000 more than he had paid for it four months earlier, they decided to sell it. It wasn't inflation that increased the value and allowed that kind of profit. It was sweat equity and a smart decision to buy a property well below market price. Their profit was made when they purchased and realized when they sold.*

Sometimes, I wish I had cut my teeth on high-dollar houses. I often wonder how much more money I might have made during the past 14 years had I been dealing in houses costing more than $100,000 rather than less.

A couple of students from the Washington, D.C. area come to mind. Their names are Keith and Kyong Luck.

I remember that the first deal we discussed was a foreclosure in which they were involved. The house was worth about $220,000 and in good condition. The Lucks had gone through a series of negotiations with the seller and the seller's attorney, only to have the attorney blow the whole deal. The Lucks were willing to pay $150,000 to $160,000 for the house with some owner financing, but the attorney had advised the sellers they could do better, and that a miracle would happen before they were foreclosed out of the house.

Finally, the foreclosure auction was looming, and no miracle had occurred, so the Lucks stopped talking to the seller and the attorney and went directly to the lender, the one who was foreclosing. With him, they negotiated a deal in which the bank would create a new loan to the Lucks for the amount of the existing debt if the sale went through and the bank got the house back. Of course, no miracle happened, the sale went through, and the sellers lost their house because they had followed the advice of their brilliant counsel.

All this time, Kyong had been telling me she wanted to buy a house for 50 cents on the dollar. I kept telling her that doing so would be difficult in her high-dollar market. I bet I told her a half dozen times that 20% of $200,000 was better than 50% of my $50,000 houses. I finally got her to agree to stop trying to make a killing on one house and to be happy with a 20% to 30% profit in her area. So she agreed to be less greedy and to stop making ridiculous offers.

Their next call was to tell me they had bought the house from the bank the day after the sale. The bank issued them a new $95,000 loan with good terms, and they had to agree to throw an additional $6,000 into

the pot to get the house. Their total purchase price was $101,000 for a $220,000 house in good condition.

I'll tell you, some of my students just won't listen. Maybe the next time I tell them they can't buy a house for half price they'll pay attention. Then again, maybe not. By the way, after the Lucks bought this house they did a stupid thing. They moved into it. Dumb, huh? The last time I heard, they had refinanced the house for $175,000 to generate about $70,000 of tax-free cash. Knowing Kyong, I'll bet she still has every penny of it.

Any of you, and I do mean any of you, who have a desire to use real estate as your vehicle, coupled with willingness to learn what you need to make it work, can accomplish the same thing and more. If you put forth the effort and stick with it long enough, you will be successful. Most folks start part-time and learn the ropes as they go. After a few successes, some make it their full-time occupation. After all, if you net $10,000 or more per house, how many do you have to turn in a year to surpass your present income?

Saleable Houses for Pennies on the Dollar

The kind of "buy low-sell high" house you're looking for is located in a bread-and-butter neighborhood, the subdivisions that are in the low to mid range-priced houses. This is where most Americans live. This is where you will find the majority of the houses with the most motivated sellers, and that is where most buyers want to live.

If you intend to sell using FHA financing, ascertain the maximum loan for your area and look for houses that will retail in a range from 40% to 65% of that amount. For example, if $90,000 is the maximum loan, then you will look for houses that will appraise for $35,000 to $60,000 in good condition. If you venture above that range, you will have a tough sale on your hands because your buyers will need a large down payment to qualify for financing.

You'll spend much more time trying to market a high priced house than you will if you stick to the low-priced bread-and-butter houses. Why tie up your funds in one really nice house when

you could take the same money and get control of three or four houses in blue-collar neighborhoods? The people who buy higher-priced houses are more sensitive to ripples, bangs, and thuds in the economy than the blue-collar guys.

Think about it. When the vice president of marketing is laid off, how long will it take him to find a comparable position? When the guy who works at the plant or works construction gets laid off, he can usually find a similar job in a lot less time than will the vice president. Another thing to consider is that many houses in the upper end of the market require two incomes to make the mortgage payment. What happens if one spouse gets laid off, pregnant, or dies?

Give this serious thought when you are prospecting for properties. In other words, do your fishing in the pond with the most fish. You need to do everything possible to ensure the success of your investments.

Next, find out how much the property is going to cost. Using the Property Acquisition Worksheet will help you calculate this in a matter of minutes, and it will keep you from forgetting anything. After you have completed the worksheet, the only thing left is to verify your assumptions, which are the cost of repairs and the value after the repairs are made. If the numbers tell you you'll make the desired profit, and the house is in a saleable neighborhood, then proceed to closing.

Summarizing, here are the essentials for a buy low-sell high deal:

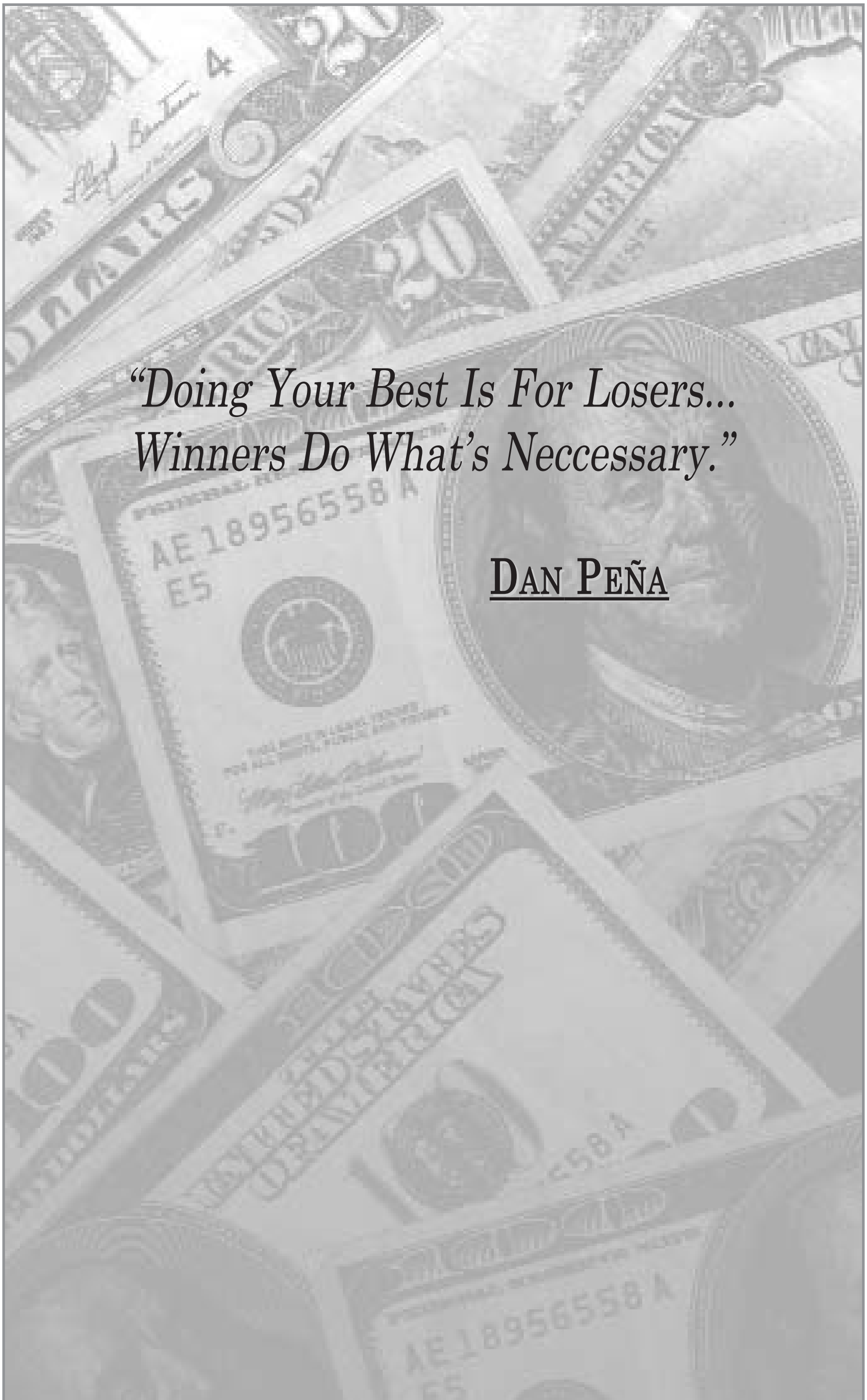
1. You must make sure the house is in a good location for resale — a good, clean neighborhood where people want to live and where you won't need a gun to feel safe while showing the house.

2. Complete the Property Acquisition Worksheet. Make sure you know your bottom line prior to buying the property. Know what you are going to do with the property. The worksheet will show you the profit you can expect if you enter into a particular deal.

3. Perform quality repairs to the house. Don't cheat in this area because you're in a hurry to resell. If you have a buyer who can qualify for a loan, he or she has many houses from which to choose. Your house should be prepared so that it is a cut above the rest.

4. Prepare a complete marketing plan for the house before you put it up for sale. Answer these questions before you buy the house: How are you going to sell it? Who is going to sell it? What lender are you going to use? How will you write the ad? The earlier you decide these matters, the smoother the sale will go and the faster you will make your cash profits.

It may be to your advantage to let a good REALTOR® handle the sale for you if you don't feel comfortable doing it yourself. If you have done a good job of finding a good deal to begin with, you should be able to afford the services of a REALTOR® and still make a handsome profit for yourself. Remember, no one gets anything until the property is sold. Professionals can sometimes help you turn the houses faster than you can do it yourself. Used properly, a REALTOR® can be a real asset in your investment strategy. In later chapters, we'll talk more about REALTORS® and how they can put more cash in your pocket.



"Doing Your Best Is For Losers...
Winners Do What's Neccessary."

DAN PEÑA

Obstacles are those frightful things you see
when you take your eyes off your goals.
A great pleasure in life is doing
what people say you cannot do.

Walter Gagehot

Chapter 6

Wholesaling to Other Vendors

Buy Low-Sell Low

Wholesaling properties is one of the best methods to generate rapid returns. As we said in the previous chapter, although retailing a property will make more money, it requires far more work. To retail, you need money to purchase and repair; you must find a buyer; and you have to arrange a loan. If you are willing to do that much work, retailing is the way to make the most money.

It is wise, however, not to have too many retail houses going at any one time. It is too hard and risky because of carrying costs. On the other hand, just because you have plenty of houses to retail, you shouldn't stop looking for more because wholesale buyers are always available if you find a good deal.

Wholesaling properties is the quickest way to make cash overnight. For example, I recently bought a house from a lender for $5,000 total. The house needed work and was appraised for $32,000 after repairs. I sold it the next day for $10,000 cash without touching it. The lender could just as well have spent $5,000 to fix it up and sold it retail for $32,000. He didn't want to do this, for various reasons, so his loss was my gain.

The hardest part about wholesaling is finding the deals. You will learn how to do that in Chapter 9. When you become good at finding the deals, you are often a retailer's best source for houses. You, as a wholesaler, can look for deals all day, all the

time. You may have to make 20 offers to get one that is acceptable to a wholesale buyer. However, if you are willing to do the hard work, it is not uncommon to make $2,000 to $10,000 in 24 to 48 hours with a good contract. A person can make a good living finding deals to sell to investors and/or owner occupants, without ever retailing a single house.

With this method, you find the properties, put them under contract, then sell the contract to other investors who want to make repairs and sell properties retail. In some cases, you will have to purchase the house to protect the deal and sell it a short time later for a quick profit. Usually, a retailer is our prime customer, but owner occupants are good candidates as well, because many people are looking for inexpensive handyman specials they can fix up and occupy.

Selling a Contract to Another Investor

Four keys to wholesaling your properties:

1. **Don't expect to sell an investor any house you wouldn't buy for yourself.** You have to negotiate good deals if you are going to get into the wholesale business. Remember, investors aren't stupid; they think just like you.

   Ask yourself if you would buy the contract in question if it were presented to you and you had the money, but not enough time to find your own deals. Remember, if buyers are going to do all the work to repair a property and market it at retail, they want to make a good profit, and they are entitled to it.

2. **Complete the Property Acquisition Worksheet,** without exception. Fill out this sheet as if you were the investor who was going to buy the house and retail it. Allow for a reasonable profit for the investor, while making sure that you include your own wholesale profit in your buyer's costs.

3. **Don't be greedy!** Take a small, fast profit, leaving the larger profit to the retailer. You can sell the contract to an investor for a markup of $2,000 to $10,000, letting the investor repair the house and collect the lion's share of profits.

   Remember, there is always a wholesale market and a retail market. It is the wholesale market that lets you turn a deal into quick profits. You should be willing to take less money to complete the deal more quickly. Using this method, you will ultimately make more money by working a larger number of deals, each generating a modest profit.

   The amount of your profit will depend upon the value of each deal, your quickness at finding the great bargains, and your skill at cultivating a list of wholesale buyers who will buy the houses as fast as you can find them.

4. **Construct these deals with low cash down.** For example, in the deal mentioned below, we could have offered the seller $15,000 cash to mortgage, taken over the $5,000 loan, and bought this $20,000 house. But if we had done that, the investor would have had to come up with $17,000 cash to buy this property from us. That would have been too high for some investors.

   Constructing the deal with only $7,000 cash down made it much more marketable. Make your deal acceptable to the seller and agreeable to an investor, so you can turn it around with as little cash as possible. Make your deals work for everybody!

EXAMPLE

OFFER 1	
Purchase Price	$ 20,000
Take existing debt	$ 5,000
Cash required	$ 15,000
Plus my fee	$ 2,000
TOTAL CASH REQUIRED	$ 17,000

OFFER 2	
Purchase Price	$ 20,000
Take existing debt	$ 5,000
Down to seller	$ 5,000
Short term seller carry back	$ 10,000
Cash required	$ 5,000
Plus my fee	$ 2,000
TOTAL CASH REQUIRED	$ 7,000

Always be cash-conscious. Make offers as if you have little or no money, even if you have a lot. The smaller amount of cash required, the more attractive the deal will be to an investor. And, of course, always use as much seller financing as possible.

FINDING OTHER INVESTORS TO BUY FROM YOU

A great place to find buyers for your contracts is your local real estate club. Some clubs in major metropolitan areas have several hundred investors, many of whom are potential buyers for your contracts.

Why would they want to buy your contracts? Many investors don't have the time to find as many deals as they

would like. Some investors are too busy to even follow up on their own leads! Others may be nervous about negotiating and will be thankful for the opportunity to profit from your initiative. Occasionally, investors will have chosen a narrow niche in the market in which they want to work, such as a particular neighborhood or type of building. If you bring in their kind of contract, they will be extremely interested.

To find a club, just check the yellow pages under “clubs” or “associations.” Sometimes clubs advertise in newspapers. Be sure to ask REALTORS®, title insurance companies, real estate attorneys, and others who work in the field if they know of any local real estate clubs. If there isn’t a club, start one! You will quickly discover just how many other investors that do or want to do the same thing you do. Real estate associations are discussed further in Chapter 9.

In addition to real estate clubs, you can run ads in the local papers. People who call about handyman specials are usually investors. Keep those names and treasure them because they are your most valuable assets. Be sure to complete an information sheet for each investor. Before long, you will have developed a list of serious buyers, and then your problem will be finding deals fast enough to sell to them.

The Property Acquisition Worksheet is one of the best tools in your investor tool kit. First, it will tell you whether the deal makes sense or not. When I say a deal “makes sense,” I mean that a property can be bought for a price low enough to cover all costs, then sold high enough to render a profit. Whether I sell a house to an investor or to a home buyer, I have to be able to meet the costs AND realize enough profit to make the deal worthwhile.

When an investor sees that you have taken into account all the costs involved in a piece of property, while allowing a profit margin for both of you, he feels the deal is attractive and you are a pro. Remember, this is not about real estate; it is about money. If your investors don’t want to buy or can’t buy at the moment, ask them if they know anyone else who might be interested in buying a house for renovation and resale. Even a person who can’t afford the deal may know someone who can.

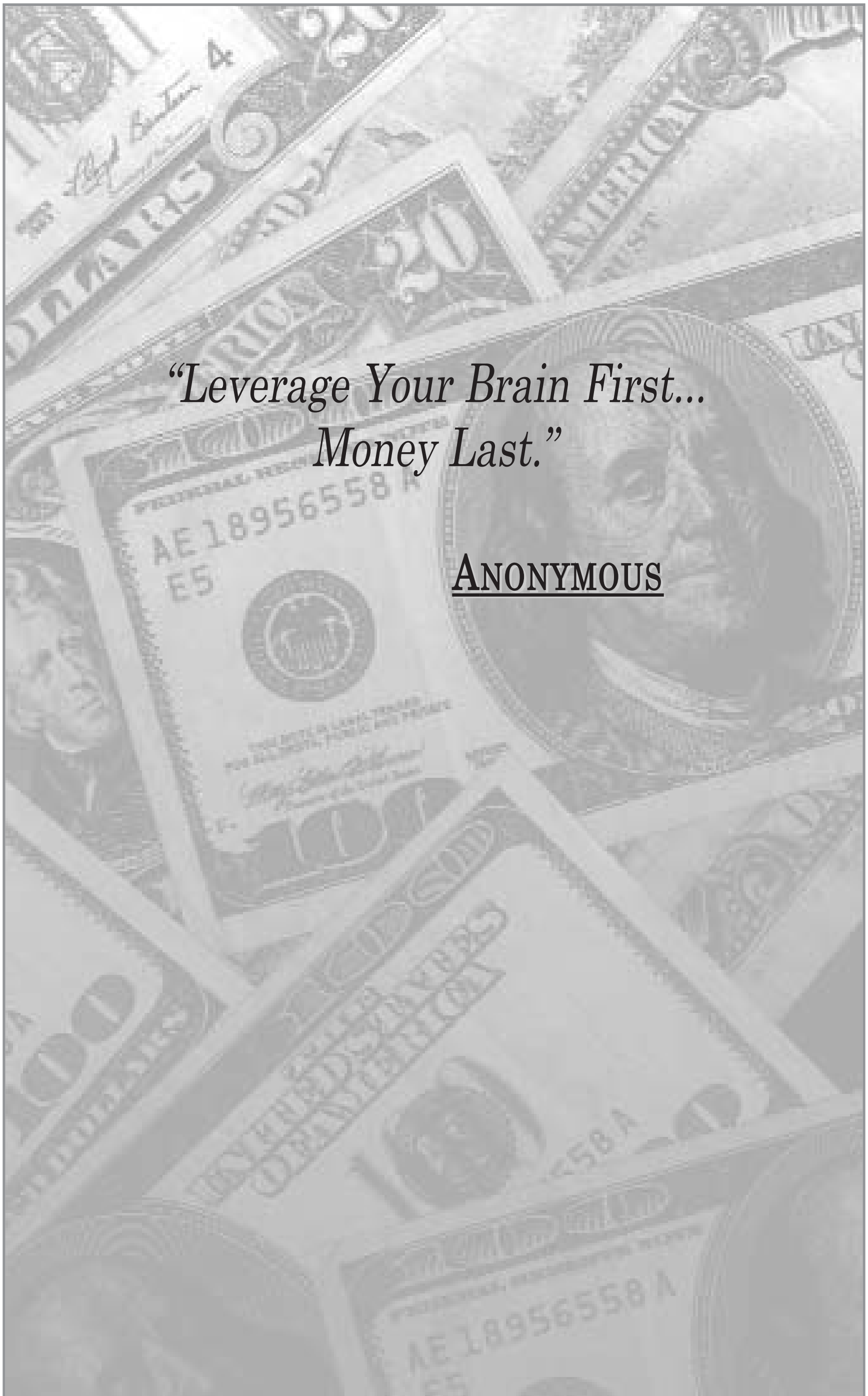
If you are able to find good deals, you won't have trouble selling them. Only time will make you an expert at wholesaling. Don't expect to acquire all the answers in a day.

One mistake many investors make is to stop looking for houses when they have a few on hand. When you become proficient at finding the bargains, you will probably discover that they are much easier to find and buy than they are to sell retail to qualified buyers. However, this should not stop you from wholesaling them as fast as you can find them.

Most of the time, you will have a house sold before you have to buy it. By constantly locating deals for others, a high, consistent cash flow may be obtained by collecting a few thousand dollars per house on simple, hassle-free Quick-Turns. Many of my students are producing $15,000 or more in monthly income by doing just that. They have discovered an important point that others may never figure out . . . NEVER SHUT DOWN THE BUYING MACHINE!

> *This brings to mind a friend from Atlanta, Steve Jordan. In January 1992, Steve was working for IBM. In February that year, he attended our Ft. Lauderdale Boot Camp because his intentions were to go full-time into real estate and he wanted to get a jump start.*
>
> *That's exactly what he got. He recently wrote that he netted more than $64,000 on just four deals in the first five months of his full-time career.*
>
> *One deal in particular sticks in my mind. Steve paid $32,000 for a house worth about $60,000. the house needed about $6,000 to $8,000 in repairs. He repaired it and sold it retail for a $16,000 profit. Later, he discovered the seller had paid only $15,000 for the house. That's a $17,000 easy profit to Steve's seller and a $16,000 profit to Steve all on the same house.*

Who says this is the stuff of fairy tales?



*"Leverage Your Brain First...
Money Last."*

ANONYMOUS

Each problem has hidden in it an opportunity so powerful that it literally dwarfs the problem. The greatest success stories were created by people who recognized a problem and turned it into an opportunity.

Joseph Sugerman

Chapter 7

Assumptions: Using Non-Qualifying Loans

I know from all my experience in buying houses that beginning investors can make good money quickly on assumption deals. I have found this to be one of the easiest and quickest methods of buying and selling a property in weeks, days, or even hours. Using this technique, you will find loans that can be assumed, such as non-qualifying FHA and VA loans, or you can create non-qualifying financing by using seller financing.

The beauty of this is that non-qualifying loans require little money and no credit checks, and you need very little training to do them. A non-qualifying loan is any loan that does not contain a "due-on-sale" clause. (Due-on-sale gives the lender the right to call the loan due when the property transfers ownership.) The absence of this clause takes control away from the lender and makes the loan freely assumable with or without the lender's permission. This creates attractive financing because the buyer does not have to qualify for a new loan to buy the house. If a buyer can satisfy the seller's need for a cash down payment, he or she can buy a house regardless of their credit or inability to qualify under normal standards.

You must get into these deals with very little cash. In fact, you can even buy these with no money down. Sometimes, owners are two or three months behind on the payments, and you just pay the back payments and take over the loan. Often, you can sell the property before you have to take title to it. If you find a buyer before you close, you can often have the property deeded directly to the new buyer and just pick up a check for the

difference. If you buy a property for $1,000 down and sell it for $4,000 down, you keep the fast $3,000 profit.

Here is an example of an assumption deal that was located by my son-in-law, Bobby. Before I tell you about the deal, maybe I should tell you about Bobby.

When he was in his twenties, he had hair down to his shoulder blades. His main ambition in life was to be a rock-and-roll star. That's right, one of those hippie-looking, guitar-banging, noisy rock stars. Now, I don't have a problem with that so long as I don't have to listen to the racket; it drives me up the wall. Hey, a man's gotta do what he likes, right?

Anyway, over the years, Bobby has become proficient at putting together deals when he decides he wants to work, which usually happens only after he runs out of money. Not long ago, a couple called about our ad that we buy houses. They had a house with a $50,000 FHA loan that was assumable with no qualifying, and they wanted $2,000 cash in addition.

Bobby looked at the house and determined that it was in good condition and worth in the mid-$50s. He knew from experience that the less he gave the seller, the more he would make when he found a buyer. He had learned that the only way he could make quick cash on an assumption was to get in with little or nothing down, then find a buyer who would bring a few thousand dollars to the closing and assume the loan without qualifying. He could keep the difference between what his buyer paid down and what he had to give to the seller.

He tried to convince the sellers to deed the house to him. He said he would take over the loan and pay the closing costs, but they wouldn't bite. However, they did agree to accept $1,000 at closing.

Within two weeks, Bobby had found a buyer with $5,000 and set up a closing for a few days later. From

> *that $5,000, he paid the sellers the $1,000 and put $4,000 in his pocket.*
>
> *While that wasn't a big deal, it was a fast, easy $4,000 any way you look at it. I forgot to tell you why Bobby wanted this deal. You see, I was about to take a trip to Las Vegas for a speaking engagement, and Bobby and my daughter Vicki wanted to come along. The only way they could afford this was to work a deal such as I've just described. As I said before, Bobby really works when a sense of urgency strikes him.*
>
> *Incidentally, all the money was gone within 24 hours of landing in Vegas! Oh well, easy come, easy go.*

With this type of deal, I recommend that the house be in excellent condition. You also profit most by getting into this property with the least possible down payment. The holding costs can be held to a minimum through negotiation with the seller. For example, if you bought the house in the middle of the month, and the seller expects to be in the house through the start of the next month, you can reasonably ask him to make the next month's payment, thus reducing holding costs and increasing your profits.

This is typical of a retail assumption deal that generates immediate capital. If the house appraised for $55,000, you could still sell it for $56,000, $57,000, or even $58,000 if you wish. The financing makes the house very attractive to the buyer and, consequently, makes the house worth more. In either case, you have no reason to appraise the house and neither will your buyer. It's worth whatever you say it's worth.

But what if the buyer does not have $5,000 cash for a down payment? You can take whatever down payment he has and payments in the form of a second mortgage until it is paid off with interest. Or, let them rent the house until they have paid the entire $5,000 over and above their payment, then deed the house to them.

Six Keys to Successful Assumption Deals

1. **The house must be in good condition,** needing few, if any, repairs. You shouldn't spend more than $1,000 to upgrade and purchase a $50,000 property.

2. **Pass by any deal if you can't get into it with only a small investment of cash**. If it doesn't fit your guidelines, WALK AWAY. There are hundreds of other deals that DO fit.

   On the other hand, don't walk away without leaving an offer. If the seller becomes motivated enough in the future, he may decide that your offer looks pretty good after all.

   The monthly payment on any assumption should be about 1% of the original loan. For example, an $80,000 loan should have a monthly payment of about $800. Similarly, a $55,000 loan should have payments of no more than $550 a month. You would have a problem selling a $55,000 house with a $750 monthly payment.

   People living in $100,000 homes are accustomed to paying $1,000 a month. This type of transaction will work on a $150,000 house as well as a $50,000 house. However, with the more expensive homes, it is even more important to watch your carrying costs and enter into the transaction with very little risk.

3. **The property must have an assumable non-qualifying loan**, or you must have a good working knowledge of seller financing to create it yourself. Creating seller financing is discussed in Chapter 13. It is an excellent means of creating income.

4. **Ask for the right amount of down payment when reselling the house.** I try to match carefully the amount of down payment with what I know about my potential buyer. If you are selling a $150,000 house, then you would expect $10,000 to $20,000 down. Is that too much? Not really. I know from experience that people who would live in a $150,000 home usually have that amount of money to put down. For a $50,000 house, however, you may not be able to get more than $5,000 down. It is usually difficult to get more than a 10% down payment, so a good rule of thumb would be to keep it to 10% or less.

5. **Let your buyer pay all the closing costs.** Just write it into the sales contract and act as though it's normal. The contract determines who pays what closing costs. Remember, buyers of assumptions often can't qualify at the bank, so they tend to be a lot less picky than buyers who can qualify. You are in control, so you make the rules.

6. **Try not to take title to the house.** Ideally, you will have resold the house prior to the closing. As mentioned above, if you find a seller who needs $1,000 to get out of his problem, and you find a buyer who has $4,000 to put down, you can set up a simultaneous closing and make $3,000. If you close and take title, however, you then become responsible for the payments and closing costs. Of course, I would recommend that you always have the house under contract before you try to market it, and you should be prepared to close even if you can't find a buyer before your contract expires.

When you become proficient at finding a buyer first and then find the house to buy, the entire process becomes much easier. I have done many of these assumption deals. Some I had to buy first; on others, I did a simultaneous closing with the new buyer and seller present at the same closing. In that case, all I had to do was pick up my check and look for another good deal.

Either way will work, but your profit will be smaller if you actually take title, because you will probably pay some or all of the closing costs and some holding costs.

Types of Loans to Seek

It is best to look for assumable non-qualifying loans. Those are VA loans closed prior to March 1, 1988, FHA loans closed prior to December 15, 1989, and most private loans that do not contain a due-on-sale clause. VA and FHA loans closed after those dates also can be assumed, but they require qualifying because there is a due-on-sale clause attached to them. This is time consuming and does not fit into our program very well.

Make sure you find out when the loan on a particular property closed. Get in the habit of asking when the owners closed the loan when you take the information over the phone. Assumable private loans also can work very well for investors because they can be below normal interest rates and require no points and other fees to assume.

Thousands of houses with good, non-qualifying FHA and VA loans are available. This means that you just have to be alive to assume the loan. There are no other requirements. Simply take over the loan and make the payments. A corporation, a trust, or any other entity can buy such properties. If there are two homes on the market, one with a non-qualifying loan and the other requiring a new loan, the assumption will sell faster every time. I have seen deals like this in every city to which I have traveled.

You don't have to steal assumptions. You can buy them for what they are worth or a little less. I'm talking about buying them for 80%, 90%, or even 100% of their value and still making money. What makes them worthwhile is the loan. It doesn't require lender's credit checks or other qualifying requirements. It's all in the financing. You can use this technique over and over again to make money. It's an easy-in, easy-out method.

Most old FHA or VA loans may be assumed for a $45-$125 transfer fee. However, do not assume the loan under your own name. Assume it under a trust or corporate name (see

Chapter 14 on taking title and land trusts). This will avoid personal liability.

Failure is not an option. It's just the nagging possibility that helps you stay focused.

Anonymous

Chapter 8

Lease Options: Taking Control Without Taking Title

The fourth way I make quick profits on houses is to use a lease option or just an option. Anyone can cash in big by controlling property while never taking title. This method will work on houses in any condition, in any price range, and with any kind of underlying financing. You can reap large profits without ever owning the house. You don't have to pay any closing costs or do any repairs. You use little or no money and take no risk. There are two versions of this technique.

Leased To You, Subleased to Your Tenant

In the first version, I lease with option to buy and reserve the right to sublease to a tenant/buyer, who will eventually buy from me. There are three profit centers involved in this kind of transaction. Since I have the right to sublease, or sandwich lease, the first profit will be made the day I put a tenant in the house. The objective is to get a non-refundable down payment or earnest money deposit from my tenant/buyer. This will always be more than I gave the seller to secure my lease option, because one of the criteria for this kind of deal is to obtain control of the house with little or no cash. It's non-refundable because I have made it perfectly clear to my tenant/buyer that if he doesn't buy the house, he won't get a refund.

For example, if I gain control of a house in good condition, give the seller $1,000 and get $3,000 from a tenant/buyer a few

days later, I have made an instant $2,000 for renting the house. Pay attention all you readers who need money two weeks from Friday. What I have just told you could be a full-time business, producing $10,000 per month income simply by renting three or four houses you don't even own.

The second avenue of income is the monthly spread I will attempt to create between the amount I collect from my tenant/buyer and the amount I pay my seller to cover his payments. This is raw profit that is also non-refundable. For example, if I am collecting $650 a month and paying $450 a month, I receive $200 a month profit for collecting rent on a house I don't own. That beats the 10% REALTORS® collect, doesn't it?

OK, I know what you're thinking. You're concerned that you need a license to do this, aren't you? Wrong! As long as you have a lease option agreement signed by the seller, you need no license of any kind. This gives you an equitable interest in the house, giving you the right to sell or lease the house without being licensed. In fact, you don't have to be licensed to use any of the strategies and techniques I teach. You don't need a license to buy or sell houses as long as you have them under contract to purchase or option, and your purchase is not contingent on selling the house before you buy it. Let's just keep it simple and successful.

Another advantage of collecting earnest money and a monthly spread is that it's not taxable as income until your buyer either buys the house or defaults, as long as you call it all "option money" and not "rent received."

The third income generator is the spread between the price you negotiate as your buying price and the amount for which you actually sell the house when your tenant/buyer exercises his option to purchase. This could be a substantial sum and frequently is much more than you would make if you actually took title.

Remember, you have only optioned the house. You haven't actually agreed to purchase it. An option is a unilateral agreement giving you control without forcing you to buy. Therefore, if things don't work out as planned, you can back out with no loss.

Lease Option Without the Sublease

What you are about to read in the next few paragraphs is known to only a handful of people in the entire country. This method itself could become a full-time endeavor. If you become adept at marketing houses, what I'm about to tell you could enable you to make $200,000 this year. You need little money, no credit, no partner, no employees, and you'll do no repairs on a house. In fact, you can work in middle- and upper-class neighborhoods if you like, deal only with the cream of the crop, and make no monthly payments in the process.

Before you get too excited, let me emphasize that the key to being successful is to become proficient at marketing houses. First, look for the areas with the most sales activity in any price range. If they're selling fast, I don't care how much they're selling for. Actually, the higher the price, the better, because the higher the values, the more room you have to negotiate a wider spread.

Next, do everything possible to find all the houses for sale in these neighborhoods. Use several of the techniques described in Chapter 9 to find motivated sellers. You're looking for houses in excellent condition, in very marketable areas, and preferably vacant, because they'll be easier to show. These houses must have at least enough equity to make it worth your while to sell them. If they're fully financed, they may work for the lease/sublease method, but not for this one. Use your Property Acquisition Worksheet to determine whether this is a worthwhile opportunity for you, or a deal you should ignore.

Your objective is to find sellers with problems other than necessary major house repairs. For example:

- The owner has moved and still has mortgage payments.
- The house needs minor work (that you're willing to do).
- The seller wants all cash at closing and won't compromise, but will sell below market value.
- The seller hasn't been able to sell because of poor sales techniques. or the REALTOR® is lazy, or nobody is ever around to answer the phone, etc.

Many other circumstances create flexible sellers as well. In this case, your seller doesn't have to be all that motivated because you don't have to be rigid to make a profitable deal. Your main concern is to negotiate a purchase price far enough below market value to make it worth your while to get involved.

The goal is to option the house below market value, sell it at or near market value, then keep the difference.

Let's see how this works in real life. The seller calls me and says he has a house for sale at $125,000, in a lovely area and in excellent condition. He owes $87,000 on the house, has a conventional loan with a due-on-sale clause, would like to leave town in 60 days, but he has to sell before going. He is very credit conscious and won't sign a deed until his loan is paid off and he gets his equity, or at least some of it. This might be our conversation:

Q. "Mr. Seller, you say you want $125,000 and you think that's about what the house is worth. Is that correct?"

A. "Yes."

Q. "You say you need cash and debt relief on a non-assumable loan. The only way I may be able to help you is with our lease option plan where I can cash you out if we can agree on a price and if your house qualifies. It might take me a few months to pay you, but it would be in cash. Would you like to hear about it?"

A. "Yes."

Q. "Actually, it's quite simple. There are two different ways we can work it. One, I can lease your house with the right to sublease to a tenant/buyer who should eventually buy the house. The downside to this, of course, is that someone will be living in the house. The upside is that your payment will be made in the process. The second way I can help you is to option your house at a price we both can live with and leave it vacant until I sell it. I have a good supply of buyers who want to live in your area and, frankly, I don't feel it would take long to sell it. The downside is if I don't have the right to sublease, then I can't

make your payment while I'm selling the house. Which option sounds best to you?"

A."I don't want anyone tearing up my house."

Q. "I don't blame you and I couldn't honestly guarantee you that that wouldn't happen if I put a tenant/buyer in the house. I can prescreen them, but I can't live with them."

A. "You mean you want to take my house off the market and not even pay a monthly payment?'

Q. "Yes, Mr. Seller, that is one of your options. Let's examine it a little further. First, who's making the payment now?"

A. "I am, of course."

Q. "Who will be making it six months from now if the house doesn't sell?"

A. "I guess I will."

Q. "Exactly! Now, let's examine the part about taking your house off the market. I can see where this could be a concern. You don't know I'm going to do anything for sure, do you?"

A. "I sure don't."

Q. "Then let's do it this way. I'll option your house and give it my best efforts. I'll advertise at my expense. I'll eat, sleep, smell, touch, taste, and feel your house until it's sold. It will be on my mind day and night. In fact, since I'm not a REALTOR® with 25 other houses to sell, it will be my only concern until it's sold. All I need from you is an agreement on the price and a key. Are you with me so far?"

A. "Yes! But you still haven't convinced me that I should take it off the market."

Q. "I understand your concern, but what if you don't take it off the market? What if you continue doing what you're doing now to sell it? If you get a buyer before I do, simply cut me a check at closing for $1,000 to cover my time and expenses and we'll part friends. Is that reasonable?"

A. "You mean if I sell it first, I can buy your option for $1,000?"

Q. "Yes, Mr. Seller, that's exactly what I mean. I want you to be in a no-risk situation. It's whichever way you win first."

A. "Why should I pay you $1,000 if I sell the house myself?"

Q. "Mr. Seller, quite frankly, if we can't agree on that, then maybe your house isn't the one I should be devoting my money and effort to selling. It comes down to a simple choice. Do you want someone else aggressively selling your house or do you want to continue fighting the battle yourself? I would think that with a buyout of a measly $1,000, it would be well worth a shot at it, don't you?"

A. "Well, why don't I just list it with a REALTOR®?"

Q. "I have no problem with that, if you're convinced it will help. You can list the house with a REALTOR® while still giving me the option. If the REALTOR® sells first, I'll back off and you only owe me $1,000. However, you should know that if I sell your house first, which is a very real possibility, you will still be responsible for the REALTOR'S® commission, unless you ask the REALTOR® to exclude me. Most REALTORS® are willing to do that if you ask. That simply means they won't get paid if I sell the house first. Why don't you give me just 60 days before listing? If I haven't found a buyer in that length of time, then go ahead and list and I'll even waive the $1,000. Is that fair?"

A. "Yes! That sounds very reasonable."

Q. "Good. Do you think we have a basis for doing business?"

A. "Yes!"

Q. "Great! The only thing left is for me to come look and for us to agree on a price. I think I've made it clear that I have to buy below market value to get involved. You are going to be flexible on your price aren't you?"

A. "Well, just how flexible?"

Q. "As I said, I can't pay full price. The only way I can make a profit is to buy well below market value. I can't say just how much until I see the house, but I'm telling you before I come out there that I will need a low price to get involved. Before I leave, you'll know what I can pay. Should I come look?"

A. "Sure! I'd be pleased to have you come on out. I do need to get the house sold."

I suggest that you go back over this conversation a few times until it becomes perfectly clear what I have done. Look at the questions and answers carefully. This is the way to get what you want from the seller. You should also practice dialogues like this with someone willing to help. You don't want a seller to think this is your first deal, so practice a little. Practice without pressure, and you will feel more confident when you're in front of the seller. It won't take the butterflies out of your stomach, but it will get them flying in formation.

There it is in a nutshell. I have taken control of a lovely home in a nice neighborhood with no money down, no monthly payments, and no closing costs, at a price below market and with no repairs to make. In addition, I've agreed to do nothing but attempt to sell a house and have no liability if I don't. I've put the seller in a no-lose situation, and agreed to pay all cash for the house when I buy.

In the process, I've given the seller the choice of whether he wants his payments made. Either way, I win.

If the seller chooses to leave the house vacant, I won't make the payment. If he allows me to sublease the property, I will make the payment if the house qualifies. He decides. Just think for a moment. All I'm asking the seller to do, if he chooses the vacant route, is to give me a key to show the house and agree on a purchase price. That's it.

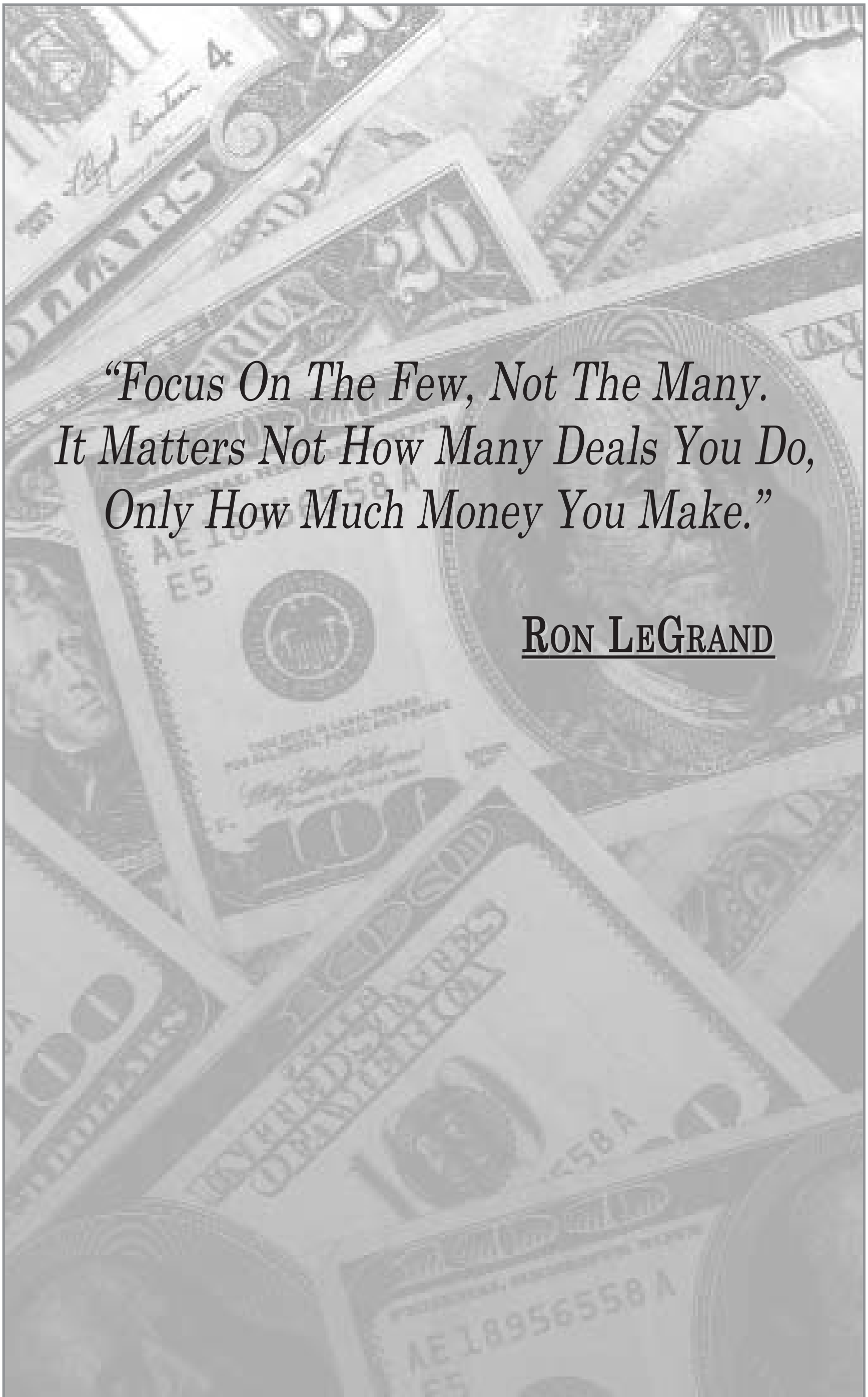
I've put the seller in a no-risk situation with positive possibilities without even taking his house off the market. Just how hard do you think you'll have to look to find people who own nice, vacant houses in lovely areas, and who are willing to sell a little below market value for all cash with no risk? I suspect

you know the answer to that question . . . SUCH PEOPLE ARE EVERYWHERE!

Now, my only role is to find a buyer for the house and help the buyer find financing. He or she will bring a check to closing. My seller will be there to get his share after his loan is paid off, and I'll leave with the difference. If I could get my seller to reduce his sales price from $125,000 to $110,000, which, by the way, would be about the most I would pay, I would realize a $15,000 profit on a house I don't own.

I would expect my seller to pay about half the closing costs and my buyer to pay the other half. That leaves yours truly with no costs except advertising.

This is the basic approach to lease options. I have only begun to show you what is possible using this strategy. I have much, much more to share with you, but that is another whole course.



"Focus On The Few, Not The Many.
It Matters Not How Many Deals You Do,
Only How Much Money You Make."

RON LEGRAND

Section III
Smart Marketing

Most people give up just when
they're about to achieve success;
they quit on the one yard line.
They give up at the last minute
of the game, one foot from
a winning touchdown.

H. Ross Perot

Chapter 9

Finding Motivated Sellers

Finding motivated sellers is vital to your success. A motivated seller is the key to all good deals. Read this sentence again and burn it into your brain forever. It will lead you to increase your profits, make better deals, put more cash in your pocket, and save valuable time. You must learn to understand and identify motivated sellers, or all the other information in this book will be useless. You'll spend all your time chasing dead ends and getting nowhere. And you won't be in this business very long.

Motivation comes in all forms. Some reasons relate to the owners themselves, such as divorce, age, health problems, or a change in family size. Others are more directly related to the property itself. Maybe it needs extensive repairs. In other cases, an owner might be having financial problems, be behind in his payments, or even on the verge of foreclosure.

One of the primary reasons for the failure of a deal is trying to buy from unmotivated sellers. It's like trying to push a rope. It will absorb all your time and energy and will get you nowhere. **Find the seller who really wants to sell**, and you will buy a lot more houses at far better prices. The secret to great deals is to find them before anyone else does.

The **first** thing you must do is let the world know you're in the house business. If you were arrested, would they have enough evidence against you to convict you of dealing in houses? Are you ashamed of being a real estate investor, or are you shouting it to the world?

Don't rely on just one or two methods to get the word out. You should pick at least five ways to find houses and put all five methods to work simultaneously. Remember, you want to make yourself prone to success. The more you put yourself in the way of opportunity, the better your chances of getting what you want.

This is important because if you try to do business only one way and don't find a house in a short time, you'll become frustrated or discouraged and quit. By knowing this from the start, you can avoid falling short and missing out on a fortune. Accept the fact that you have to do more than run an ad and sit back and wait for motivated sellers to call you to come take their houses.

To be honest, if that's all you did, you could still make a living, but you aren't after a living here, are you? You want retirement, fat city, a hammock in sunny Tahiti, travel, no debt, and all the money you can spend, don't you? If that's true, let's treat this like a business and use more than one way to attract customers. The more lines you cast into the pond, the better chance of getting a bite. If you use at least several of the following methods, you will receive more calls from motivated sellers than you can handle. That's right! The sellers will be calling you!

Why is it so important that the seller call you? Because they are always more motivated when they call you first. Knowing this, I suggest you do everything possible to encourage people to call you. Don't spend a lot of time dealing with unmotivated sellers who are just testing the waters.

Following are 15 tools that will aid you in your search for the sellers you need. Use them all, if you can. But experience has shown that you must use at least five simultaneously to succeed.

Cards

Cards are the least expensive, most effective way to advertise. They will cost between $15 and $75 per thousand, depending on how fancy they are and the kind of paper you use. A lot

of your cards will be thrown out. Sorry, but that's real life. Some of them will be saved, and a few will generate a phone call right away.

Here's the bonus question: How many deals do you have to do to pay for your cards? One single card is going to do it. The catch is, you never know which card. Don't be shy about giving out cards and telling everyone what you are doing. Even someone who has absolutely no interest in buying or selling a house might know of others who ARE interested. EVERYONE is either a prospect or a potential source of referrals.

Cards won't do you any good in the box, so hand them out everywhere, to everyone you meet. Leave them in restaurants, barber shops, stores, offices, and wherever else you go. Put them in the envelopes when you pay your local bills. If you have 1,000 cards more than three months, you're not getting the best use from them.

The message on the card should say something like **"I BUY HOUSES, CASH, ANY CONDITION." "I BUY & SELL HOUSES"** also gets a lot of attention. To get double impact from your cards, reprint the message from your flyer on the back.

Make your cards as outstanding as possible. Be different! My card is a bright fluorescent orange. It really attracts attention. People want to keep it because it is unique. When I visit business acquaintances, I often spot my card in their card file, even years later. You might consider using those fancy, four-color, glossy, picture cards. They're expensive, but highly effective.

Your card is a billboard to telegraph your message. Be crystal clear about what you do. Avoid phrases like "Real Estate Investor." That means nothing to a motivated seller. People are only interested in what you can do for them.

Run Ads

The easiest way to find motivated sellers is to run ads in your local newspapers and let the sellers call you. Which papers? As many as possible. Most of the calls you get will be

worthless, but you only need a good one once in a while to make a good income.

You don't need fancy wording or displays to get calls. The ad I have used for years simply says, "We buy houses, fast cash, two-day closing, any condition, any price, phone number." I use a bold headline and avoid crowding my ads. I usually run ads in the "Real Estate Wanted" section. Run your ad in different sections of the paper to see what works in your area. Only practice will tell you what is most effective.

Don't be concerned about the competition advertising in the paper. It's amazing, but even when eight or 10 ads, all saying the same thing, run side by side, we all get calls. Quite often, they're not the same calls, either. Most people will call only one or two ads. But if your phone number is in their area, or there is something in your ad they like, your number is one they'll dial.

Read Ads

The other side of the coin is to call ads yourself. I recommend calling ads that are in the major newspapers, as well as those in shoppers and neighborhood papers.

Don't think there are no good deals in the papers just because many people read them. First, most investors check only a few ads before giving up. Second, you know exactly what to look for, so your search for leads will be much more effective. With assumption-type deals, look for ads that say "no qualifying," "assumption," or something to that effect. For buy low-sell high retail deals, look for wording such as "as-is," "make offer," "estate sale," "needs work," "handyman special," or "investor special."

When calling or answering ads, complete an information sheet to help you remember the details about each property, and to help you decide if the property fits into one of your purchase categories: buy low-sell high, loan assumption, or lease option. Why didn't I mention buy low-sell low here? Because any house that qualifies as a retail house will also qualify as a wholesale house. The difference lies in what you do with it after

putting it under contract. You will either retail the house to a homeowner or wholesale it to another investor.

The following is an example of what you might say when calling to answer an ad. I have these conversations every day, first on the phone and then at the property.

On The Telephone

"I'm calling about your ad in the paper. I see you have a house in (city), you have a mortgage on it of about $54,000, and you are asking for $5,000 down. Will you tell me a little about the house?"

The seller describes the house to you.

"I'm an investor, and I'm looking for houses in your area. I'm very serious, but I can tell you before I come over that I can't pay you $5,000 down on that house. I have to make a profit to be interested in looking at your home, and that just wouldn't be possible if I gave you your full $5,000. If I come over, I will leave you with an offer, but I can tell you before I come that it won't be anywhere near what you're asking. Should I come look?"

"Yes."

If the seller says yes, then skip ahead to the question about loan assumability. But if the seller says no . . .

"I can understand that. If I was in your position, I would want to get all I could, as well. However, would you take my name and telephone number and let me know if things don't work out as planned, so we can get together?"

Leave the door open. You can sometimes get these houses by putting yourself in the second position. If the seller can't find his ideal buyer, then you want to be second in line to buy the property. A lot of houses have been bought using this technique, so remember to use it whenever you have to.

"If the loan is assumable, when did you close on it?"

The date the seller gives us confirms that the loan is assumable without qualifying.

"Tell me how to find your house, and we'll set up an appointment right now so I can look at it. I'll see you at 3 p.m., and I'll let you know what I can do before I leave. By the way, will you and your wife both be home then?"

You must have all owners present because both sellers must sign the contract for the property to change hands.

At the House

"You have a nice house here. It looks like it's in pretty good shape. Your payment is OK; the only problem I have is that I can't give you what you are requiring down. The best I can do is give you $1,000 down, cash to mortgage, and pay your closing costs. Would that be of interest?"

"I want $2,500 cash down, Ron."

"I'd love to give it to you! And you know what, I think you can probably get it, if you want to leave the house on the market until somebody comes along who wants to live in it. I just can't give it to you because what I'm going to do with your house is find that buyer you're looking for, and I've got to have a way to make a profit. If I were selling your house as a REALTOR®, would I make a commission? It's only fair that I make one if I do it as a non-REALTOR®, right? If I give you more than $1,000, then I just wouldn't be able to profit from my efforts. Can you see my point?"

"Well, I guess so, Ron."

"The only way I can do that is if I give you $1,000, get $3,000 from a buyer, and make a profit. If that will work for you, I can do it. If not, you're not mad at me, are you, Mr. Seller? I told you before I came over that I was going to leave you with an offer, didn't I? OK, I'm leaving you with an offer of $1,000 down, and I'll pay your closing costs. I've got to buy some hous-

es by the end of the week, so that offer is only going to be good for another three days."

The probability of the seller's taking this offer is 50/50. He might accept the offer on the spot, wait a couple of days before calling you back, or just say, "no." I do not leave a written offer unless the seller is ready to sign it. This saves time and keeps the seller from having REALTORS® pick my contract apart. I suggest that you write on a piece of paper: "$1,000, cash to mortgage, plus closing cost, and your name, address, and phone number."

If, in the phone conversation, the seller says that he will not take less than $5,000 down, I leave him my name and phone number and tell him to call if a time comes when we should get together. Why go look at houses you know you can't buy? Prequalify the seller before you leave home. Remember, you only work with motivated sellers.

FSBO Signs

It's amazing how many people do not advertise the house they want to sell. Some people are so sure the world will beat a path to their door that they just put up a single, small, hand-made sign, one that sometimes is not even visible from the street. Of course, this can work to your advantage as an investor. If you are the only one who pays any attention, you are also the only one to make an offer. Poorly advertised FSBO homes are excellent prospects for Quick-Turn deals.

Write down the telephone number if it's on the sign, call the owner, and get the information about the house. Better still, get out of the car and knock on the door. Fill out a Property Information Sheet and see if you can make a deal that falls into one of our four categories. If there's no telephone number on the sign, even better! Just knock on the front door and start talking.

Always look for FSBO signs when you're driving around. Take a different route home each day, and make it a point to

cruise the neighborhoods looking for deals. Neighborhoods change every day, and so do the houses for sale

Referrals

Would it benefit you to have 10 people searching for deals on your behalf? How about 100 people? Could you afford to pay them all? The answer is yes! You certainly can afford to pay someone $250 when they bring you a deal that makes you $10,000 or $20,000 in a short time.

Such people are called "bird dogs," and they are a fine source of leads you otherwise would not hear about. It doesn't matter how many bird dogs you have working for you, because you only pay them when you actually close on a good deal. You can mention in all your ads that you also pay $250 for leads, and you'll end up with more bird dogs than you can possibly handle. If you're a serious investor, you should always get people to bird dog for you.

Why would anyone be a bird dog? Why wouldn't they buy the deal themselves? The answer is simple. They lack knowledge! They didn't buy this book, so they believe they can't do a deal because of lack of money, lack of confidence in themselves, and a dozen other reasons. They see being a bird dog as something they can do.

The person seeking out houses for you doesn't need to make any loans or apply for credit. He just has to have a car to find the FSBOs and vacant and run-down houses. All he has to do is collect information. When dealing with vacant houses, he must get the owner's name, address, and phone number to get the $250 at closing. Bird dogs get only $100 without the owner's information. In some cases, you can pay more. This arrangement can be lucrative for both you and your bird dogs. Put them to work! It doesn't cost you a dime unless they bring you a deal that you can turn into cash.

To save their time and yours, educate your bird dogs about your requirements for a good deal. Give them a Bird Dog Sheet and a Property Information Sheet, found in Appendices C and D. They are self-explanatory and easy to complete.

Ask everyone you talk to if they know of anyone selling a house. Tell them that if you buy a house they have referred to you, you will pay them $250 at closing. Let the word get around town that you pay for leads, and you may soon have more than you can handle.

It's possible that you might get some flack from overzealous REALTORS® who think this activity is illegal, because the bird dogs don't have a license. In my opinion, however, you are simply paying for information, since the bird dogs are not performing any of the functions of a REALTOR®.

Let's talk about another method of bird dogging. This one will require a little money out of pocket, but it will bring in more leads than you can process. In fact, if you used this method and nothing else, you could buy five houses a month from it and it alone.

Here's how it works. Instead of paying your bird dogs only after you close on a deal, why not pay them the minute they bring you leads? Let's say you tell 10 people that you will pay them $10 for each lead they furnish about vacant houses in poor condition, provided they supply addresses and 35 mm photos, as well. These houses may or may not be listed with REALTORS®. They might or might not have a sign.

Would you pay $100 for 10 of these kinds of leads? You bet you would. Gladly! That's a small price to pay to get others to do all the driving around while you sit in your office and process the information.

If you train your people to find what you're looking for, and pay only for qualified leads, you'll see that your minimum outgo will produce maximum results. If you're furnished 20 houses that look bad and are vacant, you should be able to buy at least one or two of them and make anywhere from $5,000 to $25,000 or more in profit. Would you pay $200 to make $25,000? Tough question, huh?

FLYERS

I love this one. Flyers are even better than direct mail. Design an 8 1/2” by 11” flyer and distribute it door to door in neighborhoods where you want to buy. I promise, if you distribute 3,000 to 4,000 flyers in this manner, you’ll be quite pleased with the results. I don’t believe I’ve ever done that and not bought a house as a result.

The best part is that the flyer can last for years and produce results when you least expect them. Remember the house mentioned in Chapter 4? The one on which I made $23,000 from a year-and-a-half-old flyer?

Basically, the flyer should read like your ad. Don’t crowd it; just get the message across. You can hire students or people from your local labor board to distribute them. Two people can put out 500 flyers in three hours. Put flyers on every door in the neighborhood. This beats all other forms of advertising, because you know it was delivered where you wanted it to be and that it got read.

Do stay out of trouble. Avoid car windows and mail boxes: they are off limits. People don’t like to see strangers touching their cars; it is a kind of invasion of privacy. And it’s against federal law to put anything but the U.S. Mail in a mailbox.

Vacant Houses

Whenever you canvass the neighborhood with flyers, you’ll also want to be on the lookout for vacant houses and check them out. Vacant houses make motivated sellers and good bargains. They probably aren’t even on the market. And few people are willing to hunt for them, so you will have little or no competition.

Telltale signs that a house is vacant: the lawn is not cared for and weeds have begun to take over, the postman may be bypassing the house with the junk mail; the paper boy is no longer delivering; there may be a pile of papers in front, and more than one old coupon flyer may be attached to the doorknob. After looking for vacant houses for a while, you’ll begin to see the pattern and spot these properties even faster. Record

addresses of vacant houses, then check with the neighbors for the whereabouts of the owners and information regarding a way to get in touch with them.

If the neighbors can't tell you how to contact the owners, be sure to keep whatever information you have collected. After you have six to 10 addresses of vacant houses, go to the courthouse and look up the owners of each. Each courthouse is set up a little differently, so just ask for help from the clerks in the office that handles tax revenues and plat maps.

They are generally very helpful and willing to guide you through the particular system used in their office, if you ask politely and act humble.

Another way to find house owners is to subscribe to a data service whose database contains the tax rolls and is accessible via your computer.

Send owners of these houses a flyer or letter. If the owner's address and the vacant house address are the same, send a first class letter. If it is first class, it may get forwarded to them. But before you mail a flyer, you should definitely leave one at the house itself, because people sometimes come back to their houses. Even if the owner does not come back, someone who is in contact with him might appear. Leave at least two or three flyers at the vacant house, since there is also a chance a neighbor will take one.

Another way to find out who owns a vacant house is to go to the post office and find out if there is a forwarding address for the property. There is a $3 charge for this information, but you often can learn the name and current address of whoever was living there last. It's worth a try.

Obviously, not all the letters you send to owners of vacant houses will lead somewhere. But a few will. And if one or two of these leads turn into a deal in a three-month period, you can make a fair living.

As an added bonus, if the vacant house is in an estate, an attorney for the family will receive the mail. He may direct you to even more properties.

We conducted a Boot Camp in Pittsburgh and one of the students was a young man from there

named Robert Hunter. Bob had heard me speak at his local association meeting in Pittsburgh a few months earlier, and he had bought my course.

Needless to say, he got fired up with what he heard and quickly decided he wanted to get in the business. So, he registered for our Atlanta Boot Camp in July to get some fast, hands-on training. After attending that week, he went out and found some great deals on houses, but he hadn't learned to move fast enough yet. He knew he had found great deals, but he still hadn't cured his paralysis of analysis. While he was exploring all the angles, other real estate investors were buying the houses. He surely hadn't learned that nonsense from me. In fact, during the whole Boot Camp, I had pounded into him that you can't Quick-Turn in slow motion.

After a couple of tongue lashings from me over the phone for his screw-ups, Bob decided to pay a return visit to the Pittsburgh boot camp. He knew better than to come empty-handed with no leads or motivated sellers. He was fully aware that if he did I would grind him into the dirt during the entire camp.

One week before we arrived, he decided to go to work or face the consequences. During that week, he looked at several vacant houses and made an offer on two of them. While we were in session, he brought in a third one he had found; it was not only vacant — it was boarded up. He tracked down the owner and called from class to see if it was for sale, since there were no signs on the property.

We finally reached the son who had inherited the house and didn't know what to do with it. Bob asked him what he wanted for the house, and the reply was $5,000. Now that may not sound so great on a boarded-up house, but Bob had done his homework, and he knew the house was worth about $50,000

repaired. Moreover, it didn't need more than $7,000 to $10,000 in work.

To make a long story short, this young whipper-snapper made only three offers on three houses during that week, and all three were accepted. Bob was successful in buying about $125,000 worth of houses for a grand total of $30,000. The whole bunch didn't need more than $30,000 in repairs.

Bob quickly decided that he didn't have the money to buy or repair, so he sold the deals immediately to other investors and let them close on them. At last count, Bob figured to make about $20,000 cash on three deals he didn't buy.

I told this punk he was screwing up my averages. Nobody is supposed to make three offers and get three accepted. That's all right, Bob; don't play by the averages. Just go get filthy rich and tell me how wrong my averages were.

Investment Groups

There is an investment group or association in almost every major city in the country, as well as in many smaller cities. The sole purpose of these organizations is to educate real estate investors or would-be investors. Most are non-profit groups; they usually meet once a month. The meetings include varied activities and almost always present a speaker on some real estate-related subject. The members of these groups get together to learn new techniques, polish up old ones, share their knowledge with others, and stay motivated.

I've never met anyone who didn't need to have his or her batteries charged occasionally. There is no better venue for an investor to do that than at the monthly association meetings. In my opinion, they're an absolute must, if you're going to remain in the business, no matter how smart you are or think you are. The dues are minimal, and the information is free, current, and of immeasurable value. You will learn as much or more from the

other members as you do from the speakers, and just being part of the group will help you avoid thousands of dollars in mistakes while helping you make thousands with what you learn.

Why am I bringing up groups when we are discussing how to locate good deals on houses? If the people in these groups are so educated, I am certainly not going to be able to pick up any good deals from them, am I? After all, they're in this for the same reason I am, aren't they? Wrong! That kind of thinking will cost you dearly. If you are retailing houses and not utilizing the group in your area, you are walking past a fortune.

All you have to do is let the group know you're looking for some good deals on houses and that you're a serious buyer. You'll have more deals to consider than you can handle. Try it and see for yourself. You'll soon discover that other members have different motivations than you do. There are people in that same room who would love to wholesale houses to three or four people like you as fast as they can find them. They can take a small, quick, cash profit and leave enough in the deal to satisfy the needs of a retailer like you. Usually, these folks prefer not to be in the house long enough to repair and market it to an owner/occupant. Their sole intent is to flip it in hours or days and go to the next one. They deal in volume and avoid anything complicated.

Wholesaling was covered in detail in Chapter 6. For now, trust me when I tell you that all the deals you can handle are as close as your next association meeting.

If you are in a group, but aren't active, get involved. You'll soon learn that the more you give of yourself, the better your return. You can't help someone up a hill without getting closer to the top yourself.

Bank Auctions

Let's talk about auctions, which are an excellent source of leads. In fact, one of the best ways to get outrageous deals on houses is to attend auctions in which the lender is selling a batch of houses at the same time. These things are normally

real fire sales. The foreclosures are piling up so fast the lenders can't keep up with the pace and often choose to "stack 'em high and sell 'em cheap."

You'll have plenty of advance notice of an auction if you watch the papers. Auctions are always advertised, usually in display ads and usually several times. You can order a brochure that contains all the pertinent information about the houses being sold. Sometimes everything you need to know is right in the newspaper.

You'll need some cash, or at least ready access to cash. All auctions require a deposit when you win a bid. Usually, this is 10% of the bid, but the amount may vary in different parts of the country. If you don't have the money, there are several ways to get it, but that's another chapter. In fact, that could be my next book. Those of you who can raise a deposit should keep your eyes open. Don't miss your next chance to get a smorgasbord of bargains.

One warning: You **MUST** inspect the houses before the auction. Under no circumstances should you bid for a house you haven't seen. The last time I did, it cost me $2,500 because I chose to forfeit the deposit rather than close the deal. The house needed a lot more work than the picture the auctioneer showed us. Inspect first, write down your absolute maximum bid, and stick to that amount at the auction. Don't let the auction frenzy sway your predetermined bid.

Buy the junkers! You are there for the great deals, not the good deals. Your target is all the houses in poor condition, not the ones in good shape and ready to occupy. Your competition for the pretty ones will be fierce from owner/occupants looking for a deal on their next residence or from unskilled investors who don't know where the real money is.

> *I remember attending an FDIC auction that was advertised in the local paper. About 30 houses had to be liquidated. The organizers rented a motel room and auctioned all the houses in one evening. More than 200 people were bidding on about 30 houses, yet*

when it came time for the junkers, fewer than 10 people were in the room bidding.

I had called previously for a brochure and gone to look at the ones I liked — the ugly ones. I've learned from experience that the odds of buying a pretty house at an auction, for a price I'm willing to pay, are pretty slim. I look for the worst-looking houses in the bunch, since I know there won't be many bidders on the ugly ducks.

Anyway, I bought two houses that night. Perhaps I should say I was the high bidder on two houses, because I never actually bought them. The high bid on one was $4,950. It was worth $32,000 after about $5,000 in repairs. The second one was worth about $42,000 and needed $8,000 in work. My high bid on it was $8,600.

Both houses looked bad, which is what had attracted me to them in the first place, but they were in saleable neighborhoods. I had to put 10% down that night for a total of $1,355. I then had 60 days to close with all cash.

The next day, I called a friend who was in the buy low-sell high business. I sold both houses to this young lady for $26,000 cash. In both cases, I never took title. A few days later, we were at the closing table. She had the $26,000, and I had the two contracts. While the title company was doing all the work, I sat there looking dumb while my buyer did all the signing and shelled out the cash.

I had the title company deed the house directly to my buyer. The seller wasn't even there. They just sent the packages to the closing agent with instructions. The closing agent took the $26,000 and subtracted the $13,550 that I had paid for both houses. The only thing for me to do was pick up a check and leave. That looks like $12,450 to me in a few short days without my ever taking title or touching those filthy houses. In fact, I never even went inside them.

Man, this sure beats working for a living. Don't you just love it?

Don't feel sorry for my buyer. Yes, she will do a lot more work than I, and she has some capital outlay, but her profit on those two houses, when she sells them, will be in the neighborhood of $30,000 to $35,000 for both houses. And she will have it in hand within 90 days.

Ask me why my buyer wasn't at the auction. She could have saved $12,000 by being there, couldn't she? Yes, she could, but she didn't. Maybe there was an episode of *Seinfield* on TV that night that she didn't want to miss. Who knows? I'll let the psychologists figure out why people do the things they do.

Incidentally, you normally have 60 days to close if you are high bidder, and you should be able to find a buyer at a higher price within 60 days. The world is full of investors looking for bargains.

Of course, this is assuming you don't want to retail the houses yourself, as I sometimes get in the mood to do.

At a recent auction, I purchased a house for $18,700 cash. I paid the deposit and obtained a private investor loan for the balance. I spent $6,000 to repair it, and it appraised for $52,000 for a $25,000 profit. It's hard to beat those auction deals. Gosh, what if I did one of those every couple of months? How about one per month, or maybe one per week? Sounds crazy, huh?

I've turned more than 1,100 houses in 14 years. You figure out how many that is per month. While you're doing that, I'll be looking for another auction.

Lenders

Lenders have inventories of houses they don't want, but were taken back through foreclosure. These houses are called "REOs," short for Real Estate Owned, or "repos," an abbreviated form of "repossessions." On the bank's financial statement, they point to other nastier names: liabilities, losses, non-conforming assets, failures, bad loans, and inept bank management. Needless to say, bankers hate REOs.

There are so many banks in most areas, it is best to concentrate on those that are really willing to deal with you. Not all will. Some banks want to recover just what was owed on the properties, while others may hope to obtain market value. However, some banks are willing to take losses, if necessary, to liquidate these REOs as fast as possible. They want to remove these embarrassments from their books. It is these you can buy even before they go up for auction. Make all-cash offers.

Buying from a lender can sometimes mean outrageous profits. One house I bought from a lender was sold by the bank at 17% of its true market value! However, you shouldn't worry about the percentages. In high-priced areas, 70% of the value can be a great deal, while in low-priced areas, 50% of the value may not be a good deal. Only the dollars are important, not the percentage of value.

You can work many types of deals when buying from lenders. Your best deals will be closed by paying all cash, but quite often the lenders are happy to create some financing for you with attractive terms, if you qualify.

Mailouts

Investors often neglect to obtain good mailing lists of potential, motivated sellers, because it appears to be impossible. Well, it is possible and very profitable! Although you may not be able to go to a list broker and say, "Give me the motivated sellers in this area," you can generate the list yourself.

First, go to your local courthouse and research all the divorce cases, out-of-state owners, houses with tax liens, mechanics' liens, pre-foreclosures, and Lis Pendens, which is the first step in a lawsuit. Also, as mentioned before, always stay on the lookout for vacant houses, or houses needing repairs.

Second, ask a REALTOR® to give you a list of expired listings with out-of-town owners. You can often make a deal with the Realtor who gives you the list. Tell them you will use them to make some offers, or simply offer to pay them for their services.

Mail all of the above names a letter and/or flyer. These people can be expected to be motivated. This will work with all expired listings, not just those belonging to out-of-towners

FHA/VA Repos

Most people are aware of these potential bargains, but they lack the knowledge to turn a mediocre deal into a good deal. If I were to offer the government's asking price when these houses first hit the market, I would be able to make a little money on some of them, but not enough to make me want to buy them. If this is true, then why do I bother with them? The answer is simple. I don't offer the price being asked! I offer what I am willing to pay!

Now wait a minute, Ron! My brother told me I have to offer the asking price because they won't accept a lower bid. That is true, but only while they are in the bid process. Let's review the process so we can get a better idea of the mechanics.

First, the houses we're talking about are all the FHA/VA foreclosures the lending institution holding the note elected not to keep themselves. Once the foreclosure process is complete, the house may be assigned to HUD or the to VA to liquidate. Or, the lender may now elect to keep it. In some cases, the assignment takes place before the foreclosure, and the government does the foreclosing.

It's totally irrelevant to me who forecloses. I'm only interested after the legal proceedings have ended and the house is on the market. That could take a year or more.

After the process is completed, a broker is hired to appraise the house and affix a value. Sometimes repairs are done, such as installing a new roof, in an attempt to make the house more marketable. Rarely will the repairs be extensive, and the house is almost never 100% renovated. Therefore, the value is usually below market value; sometimes it is considerably below.

Every once in a while, a property will become available so far below value that I'll jump on it at the price they are asking, but this is rare. Remember, I want only the good deals, not the mediocre ones.

Here's the key. If you are going to pick the pearls from this smorgasbord of wealth, you must wait until the initial bid period is up and deal only with the houses that were passed over. These will be the clunkers, the yucks, the handyman specials, the real dirt bags. That's right! The uglier they are, the more they're worth to you. These are the ones all the owner/occupants passed up because they were so ugly. Remember, there are bucks in the yucks!

You must develop the ability to recognize opportunity and picture these houses in good shape. That ability is what will make you different from all the shortsighted people who passed up these deals.

What most investors don't know is that when the houses are placed on the "Extended Listing," the "Reduced for Quick Sale" listing, or the "Z" listing, you can offer any amount you want. The asking price will be published in the newspaper every week, along with the address and the number of bedrooms and baths.

All you have to do is take the list, look at the property, and decide what you are willing to offer. Will all your offers be accepted? I hope not. If they are, you offered too much. Somehow, I don't think that's a problem. I can assure you they won't all be accepted.

The worse the condition of the house, the better your chances are of getting a low offer accepted. The amount of time the house has been on the market is also a determining factor. It's tough to get these properties for much less than 80% of the asking price, but don't let that prevent you from making the offers. The worst thing that can happen is that your offer will be rejected.

On one occasion, I purchased a repo for 60% of the asking price; in reality, that was 20% of the after-repaired value. I sold that one for an instant $6,000 profit, without taking title or touching the house. As a matter of fact, I never even went inside it. You see, when I am buying a house for 20% of its value, I don't care if it has an inside. I bought another one for 85% of its asking price, and after spending $5,000 on repairs, I still was not involved for more than 55% of value.

Don't let these percentages fool you. In high-priced areas such as Los Angeles, Washington, D.C., and many others, you aren't going to get these houses at 50 cents on the dollar. Use common sense.

Again, it's only the dollars that count, not the percent of value. I have to buy at 20% to 50% of value dealing in the $35,000 to $55,000 range here in Jacksonville, Florida to make less money than do investors in Los Angeles who buy at 75% of value.

Here are some tips on how to make the offers. All areas have brokers who will submit offers for you. They have been trained on the forms and procedures and have a list of all the repos. I suggest that you seek one who specializes in HUD repos and work with him or her regularly. Not only have you added a professional to your team who knows the system, you also have someone to help you determine the value and marketability of the houses. Just don't forget that, even though the broker may seem friendly and well intentioned, his or her main concern is his or her commission check.

Each offer will require an earnest money deposit ranging from $500 in some areas to $2,000 in others. This is a nonrefundable deposit, so do your homework before you make the offer. Of course, if your offer isn't accepted, you will get a full refund.

If your offer is accepted, you will have up to 60 days to close or find someone else to close. Your broker may push you to close because, in most cases, brokers get a bonus for each day you close early.

This is just one way to locate good deals. Again, I suggest that you keep five or six methods working constantly. Don't rely on just one.

Out-of-State Owners

A good source of motivated sellers is out-of-state landholders. It is difficult for most people to manage a property from a great distance. Even the smallest problems appear large in the mind of a person who is not on the scene.

If a property is vacant, usually no one is available to pick up papers, mow the grass, and make the house appear inhabited. As a result, many owners worry, justifiably, about vandalism, theft, insurance cancellation, weather damage to the property, etc. All this can work to your advantage when negotiating a good deal.

If the property is rented, a host of other problems for the owner comes to mind. Collection of late rents, eviction proceedings, maintenance work demanded by tenants, finding and screening new tenants, and generally just keeping track of the property can all be big worries for the out-of-state owner. Many owners don't trust management companies or believe they can afford one, but they feel they can't handle their affairs alone, either. Send letters to all of them, offering to take away those concerns. You'll find that some of those owners are highly motivated.

A list of out-of-state owners can be obtained from a list service that has downloaded the tax rolls into its computer. Sometimes REALTORS® can generate the names from their MLS service. It may take a bit of a search to find someone who can supply the names, but when you find that person, the results are well worth the effort. Remember, in most cases, no one else knows the house is for sale. In fact, quite often even the seller doesn't know it until your letter plants the seed in his or her mind.

I once met a gentleman who had computerized the names of all the out-of-town owners of property in my area. He gave me permission to search for names based on whatever criteria I wanted. I had him pull up the names of all the out-of-town owners of single- family homes, within a certain range of assessed value, in the Jacksonville area. I ended up with a list of 4,445 names.

I then wrote a one-page letter and sent it to 500 of those names to see what would happen. It was a simple letter that basically said, "I buy houses in your area, and I noticed that you are from out of

town. Would you be interested in selling?" I put a little reply card on the bottom so they could easily let me know they were interested. (See Appendix D for a sample letter to mail to absentee owners.)

Of the 500 letters I sent, I got 10 replies; of the 10 replies, I ended up buying one house. One owner wrote back and said she wanted $8,000 for her house. On further investigation, I discovered that she had not even seen the house in 22 years! She had placed it in the hands of a local management company, who had rented it to a tenant who was paying only $150 a month in a market where $400 had been the customary rent for many years.

The house was a concrete block building with a new roof, and it was in fairly good condition. I knew immediately that the property was worth $35,000, which was the low end of the market. I interviewed the tenant, and found that she had been living there a long time and would love to own the house.

To make a long story short, I accepted the owner's offer at once. I sent her a contract and asked her to sign and return it. I took the signed contract to the title company, which then sent a deed, also to be signed, with instructions.

To deliver the money, I obtained a first mortgage loan from a private lender for $17,000 (the owner possessed the house free and clear). The lender didn't even ask for an appraisal. He just looked at the property. The terms of the loan were 18% interest for seven years, with payments of $350 a month.

Why did I go to a private lender with a high interest rate? I didn't want to be personally liable for the loan. It was a corporate loan, and I obtained it as a corporate officer. Also, I didn't want to have to qualify to anybody, and I didn't want such a loan on my credit report. I've designed my life so that I don't have to qualify to anybody for anything. That's one of the things I teach in my courses.

After paying $8,000 for the house and more than $1,500 for closing costs, which were high because it was a private loan and I had used a mortgage broker, I had about $7,500 left. At that point, I visited the tenant and said, "Mary Ellen, would you like to own this house?"

She said, "Mr. LeGrand, I don't have any money to put down on it."

So I said, "What if you not only didn't need any money to put down on it, but if I did these little repairs that need to be done? Would you like to own the house then?"

To which she replied, "Mr. LeGrand, I would love to own this home! I think God sent you!"

Who knows. Maybe he did.

I then explained that the rent she had been paying for years was way below what it should have been. She admitted that this was true. So I made the following deal with her: I immediately raised the rent to $350 per month, which she could afford, and told her that if she paid me $350 a month on time for a year, I would sell her the house for $35,000 with no down payment. I also told her we would work out the terms of the 30-year mortgage payments for the entire term of the loan.

What I did here was create a mortgage on which I would receive $350 a month for 30 years. The cash flow was structured to be a wash during the early years when I would be making loan payments on the seven-year note. But it is obvious that, after I pay off that mortgage, I will continue to receive $350 each month for 23 years thereafter. That's a total of $96,000 in profit.

The only problem was the fact that Mary Ellen was 68 years old when I made the deal with her. I tied up this loose end by having her buy a mortgage life insurance policy naming me as the beneficiary. This policy will pay me the balance of the $35,000 if

she passes away before paying off the mortgage note.

It should be noted that I could have dislodged this lady from the rental home, done a little work on it, retailed it for $35,000 cash to an FHA or VA buyer, and walked away with a lot of cash almost immediately. Why didn't I do that? The fact is that the lady deserved to live in that house. She had already paid for it by living in it for 22 years. She just didn't own it yet. So I chose to leave her there instead of booting her out. As it turned out, I received a payday up front, and I'll get another payday in the future.

While this was a good money maker, it certainly wasn't one of my most profitable deals. But I think of it as one of my best deals because it helped an tenant finally realize the American Dream of home ownership. That has to have something to do with it.

Defaulted Paper

Previously, we've discussed several ways to locate bargains in single-family houses. This section is devoted to a little-known, rarely used technique called "buying defaulted paper."

Every house that carries a mortgage or trust deed is a candidate. And the process is a simple one of seeking out loans that are in foreclosure, or about to be in foreclosure, and buying the paper instead of the property.

You are probably thinking that your biggest fear from taking back a mortgage has always been having to foreclose if the payments aren't made. And now I'm suggesting that you actually go looking for paper in default?

YOU BET I AM!

You are looking for defaulted paper so you can buy it at a deep discount and get into the property through the back door. Once you own the mortgage, you have several choices.

First, you can foreclose and own the house. **Second**, you can renegotiate the note and help the owner avoid foreclosure by ~~adding the back payments to the note.~~ ~~**Third**, you can~~ give the

owner a little cash for a deed, thus letting him avoid foreclosure.

Let's take a look at the second option. What if we cured the foreclosure by restructuring the note, setting up a new payment based on the increased amount from adding all the back due interest to the principal and then selling the note for a quick profit?

Of course, this will only work in those cases where the owner wants to restructure, and where a temporary problem existed that put him or her in arrears. In cases where restructuring won't work, your objective is to take title to the property as fast and as inexpensively as possible.

> *Recently, I purchased two second mortgages from a bank. Those mortgages were behind FHA firsts in foreclosure.*
>
> *The first deal involved a $50,000 house with a $10,800 first which was $2,000 behind. The face amount of the second mortgage I purchased was $15,000; it was $1,600 behind in payments, leaving a $16,600 payoff. The bank contacted me and offered to sell me the note for $10,000, so it could get out without foreclosing. After some legwork, I went back to the bank with a $5,000 offer, and we settled on $6,000.*
>
> *The first thing I tried to do was get the two loans refinanced for the owners. Had I succeeded, I would have received my $16,600 for a nice $10,600 profit. If this failed, I would then try to buy out the owners for a couple of thousand and resell the house for $50,000, making a nice $25,000 profit. If they wouldn't sell, I'd foreclose and sell the houses four or five months later for a hefty profit.*
>
> *Another alternative would have been for me to make up the first, restructure the second, and let the owners start over again. That would mean I'd have $8,000 cash in this deal, so I'd have to just sit on*

it and receive a tremendous yield on my $8,000, or sell the note for a profit. This is assuming, however, that I would want the current owner to remain in the house.

Let me tell you what actually happened on this transaction, since it's now completed.

First, it might be noteworthy to mention that I didn't have a dime in this. I let a friend who had been bugging me for a deal put up all the money. We tried to get the owners refinanced, but their credit was so bad and their balance so high, it wasn't possible.

Finally, we gave up on getting them a loan and tried to buy the house from them. We offered $3,000 net to them and a free month's rent. They refused the offer because they were convinced that some miracle would solve all their problems before they could be put out. This left us with no choice but to foreclose, and that's exactly what we did.

On the day of the sale at the courthouse steps, the owners filed bankruptcy to stop the proceedings. Since they had filed Chapter 13 for reorganization, the judge ordered them to start making payments within 30 days. Arrangements also were made for them to start paying on the arrearages, as well.

Thirty days passed and still no payment was received, so we reinstituted the foreclosure process. Once again we got right up to the sale — and they converted from Chapter 13 to Chapter 7 (total liquidation). This again stopped the sale, but not for very long. Our attorney petitioned the court to continue the sale, and the process resumed. About 45 days later, we owned the house. The owners had run out of tricks.

Look at the following recap of the numbers, so you can see why we got involved in the first place. By the way, the whole process took only 12 months from the time we bought the note

until we sold the house. After you look at the numbers, you decide whether the deal was worth the effort.

Note that the items marked with an * were the only ones requiring a cash outlay. The rest were deducted from the sales proceeds. Therefore, my investor paid only $17,500 in cash to get an $8,250 (50% profit) return on his money in one year. Incidentally, that is much longer than it usually takes.

Note purchase price	$ 6,000*
1st mortgage balance	10,800
Cost to bring 1st current	2,000*
Attorney fees to foreclose	1,500*
Holding costs	2,000*
Repair costs	6,000*
Sales costs (including realtor)	$ 4,200
TOTAL COSTS	$ 32,500
Sales Price	$ 49,000
NET PROFIT	**$ 16,500**

That's a 50% return on investment. Probably just a little higher than the return on my investor's CD at the bank. On the other hand, what was my return? It's called infinite! You can't measure it because I had no investment. Whichever way the deal goes, I always win.

The second note I bought involved a similar deal. It was a $6,000 second behind an FHA first of $22,800 on a $50,000 house. That house needed about $3,000 in work, and both mortgages were about 10 months behind. Since the loan-to-value (LTV) ratio was much higher on this property, I wasn't very motivated to buy when the bank said it wanted $1,500 for the note. But when I offered the bank $300 and it accepted, I just couldn't resist. I figured, for $300, what the heck, go for it. My options were the same as those that applied to the other house. In this case, however, I was a lot more motivated to restructure and just receive payments because I was leaving only $300 on the table rather than $8,000. (In the first deal, I had promised my partner a cash profit, so we had to liquidate.)

In the second case, however, I visited the owner, who was a single lady, and discovered that she had made her first mort-

gage current a few days earlier, thus stopping the foreclosure process. The bank hadn't bothered to check the status of the first before selling the note to me.

This left me in a good position to try to solve the seller's problem, with no further cash outlay, while still making a profit for myself. I discovered she really wanted to keep her house, so I simply offered to add her arrearage to the principal amount she owed, leave her payments the same, and turn the situation into a monthly cash flow. She loved the idea, so I had her sign a mortgage modification to effect the changes.

To this day, she is paying me $149 per month. So far, I've collected 24 payments and still have about 85 more due. I wonder what kind of yield I'm getting, collecting $149 per month on my $300 investment for seven years? I'll leave that up to you computer whizzes to calculate while I'm out looking for some more defaulted paper.

The second deal worked out a lot more easily than the first one. Not bad for a $300 investment. There's gold in defaulted paper, once you learn a few simple rules and how to put them to use.

REALTORS©

Get to know two or three REALTORS® with whom you can work. They have access to hundreds of houses for sale, plus all the necessary information. Once they learn what you're looking for, they'll send you so much information that all you have to do is simply sift through it and pick out the properties on which you wish to make offers. Having all the facts saves everyone a lot of running around. Sometimes REALTORS® will also know the seller's motivation; this can be very valuable to you when you're making an offer.

If you expect to stay on good terms and develop a relationship with a REALTOR®, make sure you inspect the property and can live with your offer before you make it. Act like a professional and the real estate professionals will be at your beck and call. Act like a time waster and you'll soon be on your own.

Be sure to seek out those REALTORS® who deal in bank repos, also. Some of the best deals you will ever make are going to be bank repos. The sellers are motivated and unemotional, and they almost always list with a broker when ready to sell.

REALTORS® are always an excellent source of killer deals. The wise use of a good agent can greatly enhance the number of bargains you find. In fact, if you're busy making a living in another business or job, this could possibly be the only source you need to supply more houses than you can handle.

Most real estate offices that subscribe to the Multiple Listing Service (MLS) have a computer with enough information in it to keep an agent working full-time just finding bargains for you. That computer places a smorgasbord of information right at your fingertips. It contains most of the houses listed in your area and enough information for you to formulate offers.

Just think! Instead of getting on the phone, researching each house, and collecting facts from sellers, you can turn on a machine and get 80% of what you need to know just by punching a button. These listings contain the location, size, construction, mortgage data, amenities, asking price, seller motivation, property condition, and much more information that may be helpful. You can usually even search out vacant houses. Do you think owners of vacant houses are motivated? You bet they are!

What if you make an appointment with a REALTOR® and, together, you sit down at the computer and spend an hour searching for prospects that meet your criteria? Your goal is to end up with 20 prospects that would appear to have motivated sellers. You could, for example, stipulate that you want to know about houses that need repairs. That sort of information usually shows up in the comments section of listings.

Key words that might catch your attention include "handyman special," "as is," "no warranties," "needs work," "investor special," "needs TLC," "estate sale," "foreclosure," and "bank owned."

It's time-consuming to search through these listings to pick out the pearls, but it's to your benefit to do it or have it done

while you're in the REALTOR'S® office, instead of wasting time looking at dead ends.

Here's a suggestion that will let you cut to the chase much more quickly. Look only for houses that need work that are listed well below the after-repair value. That way, when you make a low offer on a house that's already listed low, there won't be such a big spread between the asking price and your offer.

Sometimes lenders will list a house at retail, after-repaired price, even though it needs $10,000 of work. They know they won't get the asking price. Your submitting a sensible offer well below their asking price creates sticker shock, and the large reduction is just too much for them to overcome. Quite often the person responsible for accepting the offer doesn't even know the condition of the house.

If your REALTOR® doesn't use a computer, he or she will probably use the MLS books which contain the same information. The only difference is that you have to browse through the books to find the motivated sellers, rather than have the computer spit them out for you. When I started in this business, I used the MLS book to buy my first 23 houses. Either way will work if you know what you're looking for.

After you have spent one hour with the REALTOR®, you should have 10 to 20 properties to evaluate. Of course, all these prospects show signs of motivation, which is a key ingredient. Your next move is to inspect all 20 houses. You need to see their condition and the area, to get a good idea of the value after repairs, assuming the houses need work. Remember, most of these houses are vacant, if that was one of the criteria you put in the computer.

Usually, you will be able to look in the windows and see 80% of the house. This will give you a good idea of the condition and layout, so you can make an intelligent offer. There is no need to run a REALTOR® ragged showing vacant houses. You can inspect the interior after the seller has shown some interest in your offer. This will save countless hours of your REALTOR'S® time and make him or her more willing to work with you.

With this information in hand, combined with the ability to construct offers, you can now go back to your REALTOR® and ~~make an offer on every house you looked at. I'm not~~ suggest-

ing that the REALTOR® physically write up each offer and submit it. Simply get him or her to call the listing agents to submit your offer orally. If there is any interest on the other end, your REALTOR® will be asked to submit your offer in writing. Again, calling first saves a lot of time and effort for REALTORS® and allows them to submit more offers.

I know! You're saying the REALTORS® will steal the deals from you if there is nothing in writing. Don't sweat it. It just isn't so. If they are licensed and this happens, they won't be licensed long. REALTORS® live by a strict code of ethics, and they are governed closely by the state.They must disclose everything and bear heavy responsibility for their actions. You should be more concerned about finding REALTORS® with positive attitudes than worrying about having a deal stolen from you. Besides, most REALTORS® are so busy making a living they don't have time to make any money. They're only looking for a commission check.

Think about what's been done. You've spent one hour collecting prospects, two hours looking at houses, and one hour getting the offers back to your REALTOR®. Now it's in his or her hands to finish the deal. While you're working or playing, the REALTOR®is submitting your offers and getting either a yes, a no, or a counteroffer.

Let's look at the advantages of using a REALTOR®:

- Someone else is doing most of the work.
- You never deal directly with a seller.
- You are multiplying your efforts.
- Your time is free to do other things.
- You won't have to face rejections.
- Your seller cannot voice objections to you, or try to bump up your offer. He must go through a counteroffer procedure.
- Your liability is reduced because a REALTOR® is involved.
- You saved countless hours not chasing dead ends.

One word of caution, however. A REALTOR® is not obligated to give you any information from the MLS. In fact, in most

areas, it is against MLS policy for the public to have access to the system. It is a privilege paid for by REALTORS® to be used only by REALTORS®. However, most agents will cooperate and give you the information in an effort to make sales, especially if you convince them you are a serious buyer and aren't there to waste their time.

Last month with the help of a REALTOR®, I put six houses under contract to purchase. Four of them were listed. REALTORS® have always been an excellent source of good deals for me, as well as a big help taking care of details. In return, they get their commissions, the seller makes a sale, the MLS collects a fee, the closing agent writes title insurance, the termite man gets a check, a lender ultimately makes a loan, a hazard insurance premium is generated, and a repair crew gets to work. Everybody wins!

Make friends with some REALTORS® in your area. They can play a valuable role in your success. Develop a good working relationship, and it may turn into a lifelong friendship.

If you hold a license yourself and you're working with other REALTORS®, I suggest you let them have the total commission on your purchase, unless you're dealing in high-value areas where there is a big enough check to go around. Remember, a REALTOR® closing a sale at 6 1/2% commission on a $25,000 purchase is only receiving $1,625 total commission.

And he might have to split that with his broker or other agents. He is not getting rich. Give the REALTOR® the commission while you take the big profit. That's fair isn't it? Don't forget, without the services of that REALTOR®, you won't have a profit because you won't have a deal.

Don't be greedy!

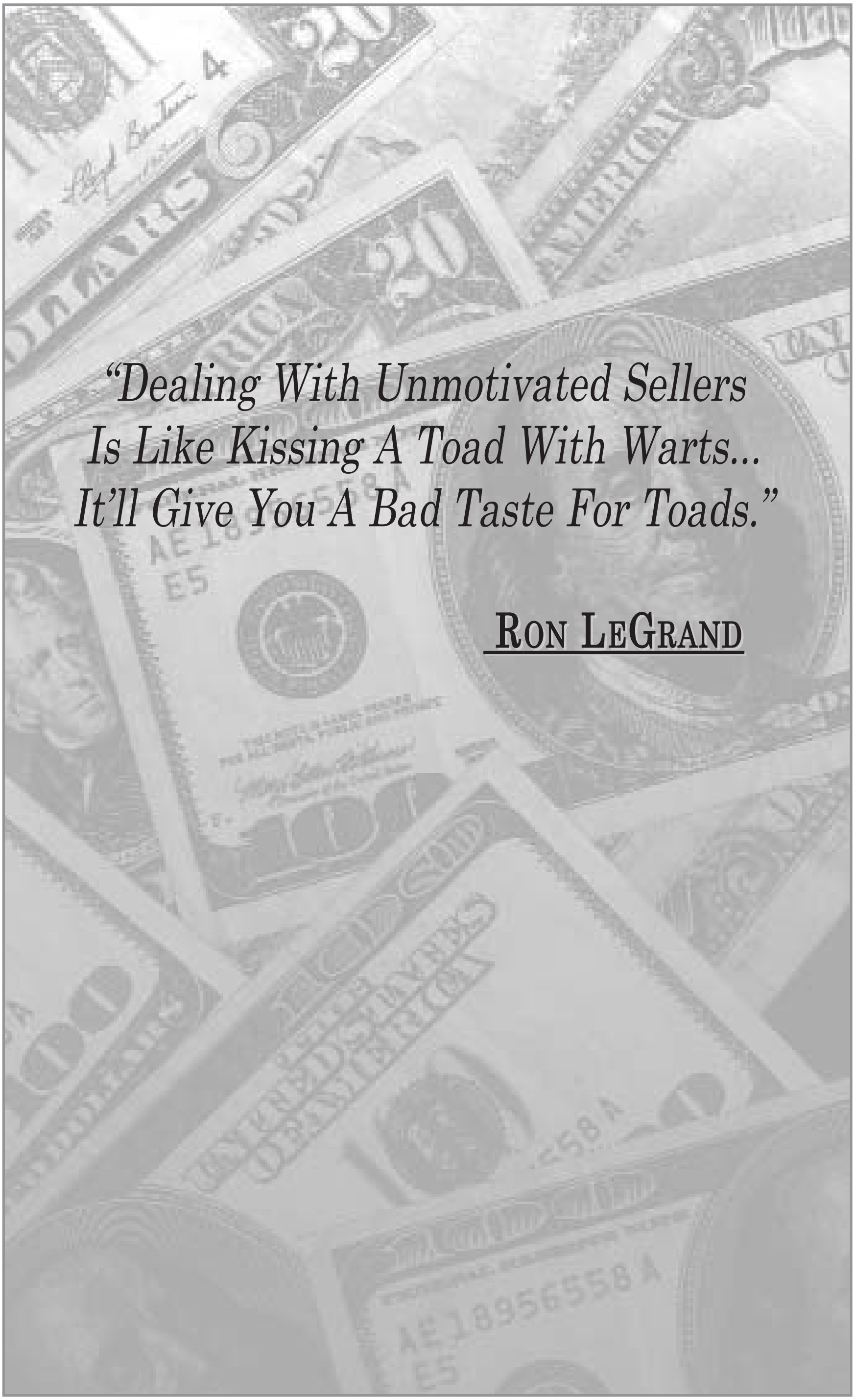
The best place to find a compatible REALTOR® is right in your investment club, if you have one. REALTOR® club members are educated in your ways and speak your language. This will make working with them a lot easier. If you don't have a club in your area, just ask around for a REALTOR® who deals with investors, especially those who handle REO®s.

The first question I would ask a REALTOR® is, "Will you be embarrassed to make low offers?" If the answer is yes, keep

looking. You're searching for a professional who is aggressive and serious about getting the job done. He or she must have good follow-up procedures and treat you like the important client you will become. Of course, this should become automatic after you close a couple of deals and prove your value to the REALTOR®.

If you're serious about buying houses and aren't currently working with a good REALTOR®, I suggest that now is the time to find one.

Another good way to generate income and increase your client base is to become a mortgage lender. We'll discuss lending in detail in the next chapter.



"Dealing With Unmotivated Sellers
Is Like Kissing A Toad With Warts...
It'll Give You A Bad Taste For Toads."

RON LEGRAND

Many receive advice.
Only the wise profit from it.

Syrus

Chapter 10

Mortgage Lending

Few people are aware that mortgage lending is an incredible way to build wealth in a hurry. It is an excellent source of leads, as well. It is called the "backdoor" of foreclosure, and many times it can lead you to acquire good properties at deep discounts and receive a fine return on your investment.

Are you getting a 15% or more yield from your CDs, stocks, savings accounts, IRAs, pension plan, and other investments? You should be! You can control your investments and make them grow safely at three to five times your current rate. Yes, I know that sounds too good to be true, but it isn't.

I'm going to share information with you about a technique that is widely used in real estate circles in every city in America. Smart people have been utilizing this investment tool for years. In fact, entire companies have been built around this technique; those who practice it properly have seen tremendous growth in returns. This is a very safe investment that produces high yields while providing security and liquidity.

Do you know what $25,000 is worth in five years compounded at a 7% yield? It's worth $35,000. Now, let's take that same $25,000 and invest it for the same five years at 15% interest instead of 7%. In this case, it has grown to an amazing $52,000! That's a $17,000 difference, simply by increasing the yield from 7% to 15%; and remember, that's in only five years.

If you look at the figures for a 10-year term, your $25,000 would be worth $50,000 at 7%, but if you change the yield to just 15%, the amount grows to an unbelievable $111,000! Folks,

that's $61,000 free dollars you will actually receive simply by increasing your yield. Can you really afford not to control your own investments? Does it make sense for a bank to manage your investments for you?

There is an alternative to CDs and mutual funds. It involves private mortgage loans. You can loan money, secured by a first or second mortgage or trust deed, and enjoy not only the safety you want, but also the high yield we've discussed, or more!

Pros and Cons of Loaning to Homeowners

First, let's clarify the kinds of loans we might make. I'm not talking about the high LTV (Loan To Value) loans the banks and savings and loans make. We're dealing with very low LTV loans. By that, I mean no higher than 50% or 60% of the value of the property securing the loan. This means that, if a house appraises for $60,000, you wouldn't make a loan for more than $36,000. That's a 60% LTV.

It's clear why this approach is safer than that taken by most lending institutions. The banks are in trouble because they make loans at an 80%, 90%, or even 95% LTV ratio. They have no cushion in case of default. Also, when you're dealing with a 60% maximum LTV, there's so much equity above your loan that, should you foreclose, the property could be sold not only for enough to cover your investment, but often at a huge profit.

If you are real estate oriented, this is just another avenue of income for you. And if you are not real estate oriented, there are always scores of investors who would love to have the property for 50% to 60% of the value if you took it back. I am talking a lot about default here, but the reality is that, when a loan is at such a low LTV ratio, default is not common.

Let me answer some of your questions about making loans. Is this a mortgage pool? No! You make the whole loan yourself. You get a lien against the property. You are the bank. You are in total control.

Do I need a lot of cash? No! I've made loans as small as $2,000. The amount of the loan is determined by the borrower's needs.

Who handles all the details? Well, in my opinion, unless you are highly skilled in real estate matters, you should use a good mortgage broker. They will not only find the borrowers for you, but they will also provide proper documentation and protect your interest. All of this costs you nothing. All costs are paid by the borrower. If you make a $10,000 loan, you send a check for $10,000 to the closing agent and you get a mortgage or deed of trust for $10,000.

Do I have to collect payments? Absolutely not! Your mortgage broker will set up your account with a collection agent, if you wish, who will collect each payment when due and deposit it into your account. This can and should be a hassle-free investment. In fact, I strive to keep my investors as far away from collection as possible, for that reason. You may be surprised to know that your bank will even collect the payments for you if you wish.

Is this a long-term investment? No! It can be any term you want. You're the boss. Usually a private investor wants a five-year term or less, but some don't care if it stretches to 10 or 15 years. You can pick a term that suits your strategy for retirement. Some investors make interest-only loans with a short-term balloon; some will amortize for 10 or 15 years and balloon in five; some people prefer the longer term. It's your money, and it's your choice. Of course, the broker is going to come to you with a term that suits the borrower. If that works for you, it's a go. If not, it's up to him to change your mind or to find another investor.

What if I want to liquidate? Mortgages and trust deeds are purchased every day, like stocks. If you want out, it will take from two weeks to a month to sell your note. Since your interest rate will be 15% or higher, you will take very little, if any, discount when you sell. You really shouldn't make mortgage loans if you feel you will liquidate shortly, but the option is always available. Just call your mortgage broker and he or she will handle all the details.

Who borrows at 15%? All kinds of folks! Some have good credit, some have poor credit. Some are owner/occupants, some are investors. These folks have learned that it's not the cost of

money that counts, but the availability of it. In the case of an owner/occupant, they may not qualify under bank terms for a variety of reasons, such as poor credit, time on the job, or debt ratio. In many cases, they could qualify but just don't want to deal with the banks. They would rather pay the high rates in exchange for the ease of getting the money. This also holds true for investors. I often have made it possible for investors to acquire good deals in houses because the funds weren't available from banks but were available from private lenders.

If an investor becomes skilled at locating good deals, the purchase price will be well below the after-repair value of the house. The bank, however, wants to loan on the purchase price, not the value of the house, thus penalizing the investor for being astute. Having the money available will make or break the deal. Paying a higher interest rate is irrelevant compared to the loss of thousands of dollars in profit if the money was not available.

Remember, as a lender, you will not lend more than 50% to 60% LTV regardless. You're making a safe loan in either case, whether it be to an investor or to an owner/occupant. You should never make a loan without a 40% to 50% safety net. If you don't violate that rule, you should always come out a winner.

What are my options if my borrower doesn't pay? Actually, there are several options in the event of default by your borrower. Foreclosure is only one of those options, and it is usually last on the list.

The first thing you can do, if your borrower's problem is temporary, is restructure the note. For example, let's say your borrower has been out of work for three months and is two months behind on his payments to you. Now he finds a new job and would like to keep this house, but he can't come up with enough money to bring you current in one lump sum. You could let him continue to make regular payments and make an extra payment on his arrearage, or you could simply add the arrearage to the principal balance and extend the term of the loan. This means you would be collecting interest on interest for the entire remainder of the loan. There is almost always a way to work out a payment problem, if both sides are willing.

Incidentally, when this happens, some of my lenders will charge a reinstatement fee as well as the back payments. Remember, it's up to you to decide whether your borrower can reinstate or not. Once a loan is in default, you have the right to call it due or allow reinstatement. It's your choice. You don't have to take the payments unless you want to. Therefore, you are well within your rights to pick up an extra $100, $200, or $300 to allow reinstatement. This is especially true if you elect to add the fee to the loan and don't force the borrower to pay it in cash. That, of course, is also your option. At this point, you are in total control.

Certainly, you would only allow a reinstatement if the borrower has solved his problem and can continue to make payments. In any case, you have other options.

You can offer to buy the house from your borrower in lieu of foreclosure. This is an opportunity for you to get a house at a greatly discounted price and avoid foreclosure at the same time. Your borrower has the option of either taking some money now and selling you the house, or being foreclosed and getting nothing. When this happens, you have created a tremendous profit center by reselling the house.

Some investors make private loans in the hope that this will happen; others would rather not get involved with the real estate at all. Either way you win. As I said earlier, when you can sell a house at 50% to 70% of its value, there are scores of investors who would take it off your hands. In fact, there are businesses built around tracking down these kinds of deals.

If you have an uncooperative borrower and you can't restructure, then you are left with either selling your note or foreclosing.

Yes, there are investors who are willing to buy your note, even if it's in default. In fact, that's the way they want it! They can either force payment of debt or get the house. However, if you sell a note in default, you usually will have to discount it, so this isn't my favorite option.

If I am left with no other choice, I simply foreclose. Foreclosure isn't the evil, time-consuming, costly, legal process that most people think it is. It's as simple as sending your note

to an attorney and saying, "Do it." Then all you have to do is sit back and wait. Nine times out of 10, before foreclosure is complete, someone will be calling your attorney's office requesting a payoff letter. Your loan will get paid off. When this happens, you will collect all accrued interest, your principal balance, and all attorney's fees, court costs, and all other expenses you have incurred in connection with your loan.

You see, when you're into a property at 50% or less, there are always lenders who are willing to refinance, relatives who will bail them out, or scores of buyers who will buy them out.

If none of this happens, you will get the house; then, you will have the options we discussed earlier.

What if my borrower files for bankruptcy? You have a lien against the house. You cannot be wiped out by bankruptcy. If your borrower files Chapter 7, you should be able to continue with the foreclosure process. It will be slowed, but it won't be stopped. You have a secured debt and a right to seize the asset.

If Chapter 13 for reorganization is filed, your borrower will be ordered to continue with his monthly payments and probably an additional payment on his arrearage. In the event that one payment is missed, you then can proceed with the foreclosure process and, usually, within 30 to 60 days, the process will be complete. Bankruptcy will slow the procedure, but it won't keep you from collecting your debt.

What happens if I take a second and the first doesn't get paid? If you are in second position and you aren't getting paid, chances are that the first is also in arrears. In that case, to protect your interests, you would simply bring the first current while starting collection action on your second. In most states, you must be notified of any foreclosure action by the first.

You'll have plenty of time to react. Remember, you are entitled to collect any money you have advanced. That includes any payments you've made on the first. Part of your closing package, if you're loaning on a second, is mortgage verification on the first. This will include all the loan information and the loan's current status.

Frequently, small seconds are made to people who are in foreclosure for just enough to bring their loan current.

Obviously, such a loan stands a much higher chance of going into default. If you're an investor who is not real estate oriented or one who would really rather not own the property, then you wouldn't want this kind of loan. On the other hand, if you see owning the property as a larger profit producer, you might consider specializing in foreclosure loans.

Many investors tend to forget that just because you wind up with the house, you don't have to keep it. It can be sold immediately at a wholesale price, producing a profit over and above the already high yield on your loan. There is no law that says you have to be a landlord and deal with tenants just because you own the house.

Of course, some people will say that you are taking advantage of people in trouble. If that's how you feel, then don't make loans to people in foreclosure. Let them stay in foreclosure and lose their home. Heaven forbid we should ever be accused of taking advantage.

Just remember, they were in foreclosure long before you came along. You had nothing to do with that. Also remember that you are probably their only hope of saving their home. When you bail them out of a foreclosure, they agree to make payments to you on the money you loaned them. If they do, you've supplied them with a valuable service they won't get anywhere else. If they don't pay, are they any worse off than they were before you made them the loan? You decide.

If you are going to make loans to people in foreclosure, let's not forget the basics. The loans must still be low LTV with plenty of equity cushion in case of default. Common sense still prevails.

On the other hand, it doesn't hurt to be a little creative sometimes. For example, what if someone comes along with a house worth $70,000, he owes $50,000 on the first, and he needs $4,000 to stop foreclosure? Under normal circumstances, you wouldn't make the loan because the LTV greatly exceeds the 50% to 60% ceiling. But let's suppose this family has another house with a lot of equity they could use as collateral; or maybe Mom and Dad are willing to offer their house as collateral. This would put you in a very secure position and ensure your repay-

ment. It's as simple as getting enough collateral, so you feel comfortable you will collect one way or the other. It's a matter of whichever way you win first.

What kind of documents should you receive? Your closing package should contain the following:

1. An original note.

2. A copy of the mortgage or trust deed. The original will be recorded and then sent to you.

3. A fire insurance endorsement naming you as mortgagee.

4. An assignment of rents allowing you to collect rents in case of default.

   These documents should be drawn up even if the house is owner occupied. If the owner moves out and rents, you don't want him collecting rents while you are foreclosing. This document gives you the right to start collecting immediately upon default.

5. A first mortgage verification (if you're making a second).

6. An application filled out by your borrower.

7. A title insurance policy for the amount of your loan insuring you against any title defects.

8. A recent appraisal of the property.

9. Some lenders like to have a termite report, as well, to ensure there is neither serious damage under the house nor live infestation. If damage exists, money could be put in escrow for the repairs and released to the contractors on completion.

Are there other avenues of income from loans? Yes, there are. We've talked about reinstatement fees and making money

with the property if you get it back. Now, let's discuss some other goodies that occur when the loans are repaid as agreed, which is most of the time.

One of those is transfer fees. Some investors get a $100 to $300 transfer fee if the house is sold and someone else assumes the loan. If you put a due-on-sale clause in your loan, you are in total control upon transfer. The borrower pays the fee or you can call the loan due.

Another nice income can be made from prepayment penalties. These are penalties incurred when a loan is paid off early. It's a technique commonly used by finance companies and small lending institutions to create another profit center. The penalty can be a percentage of the unpaid balance, or several months' interest on the unpaid balance.

For example, the note could be worded in such a way that, if it's paid off before it's due, you would receive three months' interest in addition to the regular interest. Folks, this can amount to a lot of money for a lender, because those loans are almost always paid off before they expire. If you are receiving a three-month interest penalty on a $20,000 loan at 15% interest, you're getting an extra $750 over and above what you're owed. Yes, this is legal; and no it's not usury in most states. Check with your attorney or mortgage broker to make sure you don't cross the line on prepayment penalties.

Late penalties also increase your yield. All loans should contain a late penalty. My late penalty is 10% after five days. This means that, if the $200 payment isn't received by the 5th of the month, the borrower must pay an additional $20.

Can the mortgage broker run off with my money? The broker should never be in possession of your money. Make your check out directly to the closing agent for the gross amount of the loan. The closing agent will then cut a check to the broker. Remember, you aren't paying the broker; the borrower is. You should have no expenses. Your payments should be collected by your bank or a collection company. In short, if your broker never has your money, he can't run off with it.

Is my investment really as safe as it sounds? Yes! As long as you've followed the guidelines that we've discussed and apply

common sense. No, mortgages aren't as hands-off as mutual funds or stocks or other kinds of non-participation investments. But, in return for a little effort on your part, your money will grow two, three, or even four times faster than your current investments, and you maintain control. If you follow some simple guidelines when making loans, your risk will be minimal. **Briefly, these guidelines are:**

- **Make only low LTV loans . . . no exceptions! An appraisal will confirm the value.**
- **Get title insurance for the amount of your loan.**
- **Have professionals close the loan.**
- **Make sure fire insurance is maintained on the property at all times.**
- **Take action immediately in case of default.**

Remember, making loans is a business and should be treated like a business.

If you set up a simple system and let the professionals implement that system, your loan portfolio can be hassle-free and produce staggering yields. And remember, all costs are to be paid by the borrower . . . not you!

Using Your Own Pension Plan

How do I use my IRAs or pension plan? Making real estate loans is an approved and widely-accepted use for IRAs and pension plans. Think of it! Now, you can not only loan money that has been unavailable for you to use, but you can also make it grow rapidly, tax deferred! Since Uncle Sam isn't taking a bite out of your profits until you draw out the money, more money is left in the account to compound and grow. The results are staggering. You'll be receiving interest on interest on interest, and it's all legal and approved by the IRS.

If you are to use retirement accounts for loans, they must be administered by a Third Party Administrator, or TPA. This TPA is set up and approved to administer your loan activities. This means you will probably have to transfer your plan to one of

these TPAs unless, of course, your present administrator is set up to do that. But the likelihood of that happening is slim to none.

When your TPA is located, simply send the transfer form to them and they'll do all the work for you. Once you've done that . . . you're ready to make loans!

When you've located a loan, you simply let your TPA know where to send the check for the gross amount of the loan, and you're in business. There should be no cost to you except your plan administration costs. Your setup fee, for collecting the monthly payments from your borrower, can be collected at closing from the loan proceeds, if you instruct your broker or closing agent to do so. Some TPAs will even collect the monthly payments for you and deposit them into your account.

There are some restrictions when dealing with IRAs, such as provisions against self-dealing, but your TPA will furnish you with all the facts on request.

We've covered a lot of information in just a few pages. I hope I've enlightened you on the awesome power of making real estate loans. If the concept appeals to you, I can't think of a better time to get started than right now. While most people are complaining about the low rates they're getting on their CDs and other investments, you could be receiving a bare minimum return of 15% all the time — not just when you get a hot stock.

What's it going to be? Are you going to continue to let other people control your money so you can get a return that barely keeps up with inflation? Or are you going to take control and make sure that, when you are ready to retire, you can do everything you want to do — without worrying about money?

Loan Brokering

I make a large portion of my income by loaning out other peoples' money. I collect a fee equal to about 10% of the loan and never have to get an OK from a bank. I have hundreds of students nationwide who have discovered this business and turned it into a full-time career. It's an easy business with huge rewards, and it works in all 50 states.

To learn more about private lending and/or becoming a mortgage broker, so you can make huge fees loaning money from other private lenders, you should know about **The Money Tree**, a course I have designed. Its purpose is threefold:

First, it teaches private investors why they should be making mortgage or deed of trust loans for huge yields. **Second**, it shows Quick-Turn house investors how to tap the lender market to get all the money they need to buy the good deals without going to a bank and without qualifying. **Third**, it completely covers the business of being a mortgage broker in any state.

The Money Tree course contains six audiocassette tapes with a complete workbook, software, and a brochure with an accompanying tape that you can hand to a potential private lender to convince him for you. Simply loan out the tape and follow up. I've made it easy to tap the big bucks.

I met a fellow named Khalel Gorgi in one of our boot camps in Atlanta. He had bought my course a few months earlier when I spoke in Atlanta and, fortunately, he decided to do something with it. He found a bank repo worth well over $200,000 repaired situated on four acres. He got a contract accepted — $120,000 all cash.

He didn't have that kind of money in his account, so he was faced with a minor problem. Where to get the money? Now, Khalel is from Iran and I suspect they forgot to teach him, when he was growing up, that he couldn't buy things without money. What he did was line up a loan from a private lender for $160,000 at 18% interest. This loan was based on the equity in the house, not his personal qualifications.

Khalel spent $20,000 in repair costs and $20,000 in other costs before he sold the house and one of the four acres for $230,000. He gave the buyer an option to buy the other three acres for $75,000 cash, which the buyer claims will close within six months. He will net $130,000 on this one house before he's

through with the deal. I don't know about you, but I think 18% is a lot to pay on his loan. I think he should have passed up this deal and looked for cheaper money, don't you agree? After all, who in his right mind would pay 18% on a loan for six months, just so they could make a measly $130,000 profit?

The answer is me, of course, and you, if you need to. By the way, when we were in Atlanta, Khalel harassed us until we went with him to his favorite Persian restaurant. We really didn't want to go. All I could think about was the last time I had Indian food in Albany, New York, with Paul Bauer and Danny Santucci. I figured Persian food and Indian food were a lot alike and I hate Indian food. As it turned out, it was not only the best food I've had in a long time, but for weeks after I dreamed about returning for more. Khalel doesn't know it yet, but when I return to Atlanta, he's going to take me out for some more fine eating; that is, if he's got time between deals.

Section IV
Savvy Dealing

All people are self made.
Only successful people admit it.

Dan Peña

Chapter 11

Negotiating Win-Win Deals

Most deals work out differently than the way they are initially presented. We have to make a deal work successfully using the knowledge we have. Negotiate with the seller in such a way that both of you leave with a good feeling whether you make the deal or not. Always remember to negotiate from a position of strength.

Understanding the Seller's Motivation

Ascertain the seller's needs and try to fill them. If he or she needs $5,000 cash and you can't get it for them, it doesn't matter how much talking you do. You won't make the deal work.

Listen between the lines. Many times motivation to sell has nothing to do with money. For example, intangibles such as unhappy memories associated with the house, or a long-standing argument with relatives, can cause a person to want to sell fast. Many such reasons will seem irrational to you.

If you listen well, however, you often can meet the seller's needs without cash. A seller may want to leave town by the 26th of the month, and that deadline is more important than the price. If that's the case, then match that requirement with his lowering the price, dropping the interest rate, or making some other concession. Learn the seller's problems and try to solve them.

Remember that one of the seller's understandable, basic needs is to feel safe about your contract offer. Try to use as few

contingency clauses as possible. In fact, try to avoid having any. The more contingencies in a contract, the less chance the seller will sign.

The Virtues of Patience

What do you say to the seller when your gut tells you you have a potentially great deal, but you just don't know how to put it together? One good reply is, "I will work on a way to make it work for both of us and call you back tomorrow."

This is a good line to use if you don't have all the answers and need time to figure out how to make the deal work. Don't be hurried into making an offer you will regret later.

You may be rushed at times, but never make an offer before you find out what the seller wants. This goes for property or anything else. Once you know the seller's needs, make one or more offers at the same time. All these offers are made with the seller's needs in mind, while any one of them will satisfy your own needs.

Always leave the door open if the seller doesn't accept your first offer. Quite often he or she will take less than you were willing to offer in the first place. Some deals age like fine wine, so be patient and work other deals while waiting for a seller to accept.

Using Liens and Judgments in Negotiations

Look for liens on properties. This motivates a seller. Almost any seller who has a lien on his house expects to pay the full amount of the lien when selling. Yet, you can negotiate a deal for half the amount or less with the lien holder to whom the money is owed. Then you can reduce your purchase price by the amount you discounted the liens.

Judgments seldom accrue interest, and, more often than not, they don't attach to the property. If I go to court and get a judgment against someone, the judge hands the judgment to me, and the judgment is recorded at the courthouse. But the judgment may not attach to the property unless I physically get

a recorded copy of that judgment and re-record it. This is called "certifying the judgment." Not many people know this, including most attorneys. Just because a judgment is on file doesn't mean that it is attached to the property. Check the law in your area. You should also check to see if it is a verified or certified judgment.

There are several ways to remove a judgment:

- **Negotiate with the holder of the judgment to remove it from the property for a small fee. This will not pay off the judgment, but it will remove it from the property, which is probably all you're trying to accomplish.**

- **Foreclose it off.**

- **Discount it and pay it off.**

Speaking of Interest

Is it possible to obtain a 0% interest loan? Yes, if you are dealing with motivated sellers. You may negotiate one from a seller by just never bringing up the subject of interest. Just offer to pay a certain amount until the debt is paid off.

For example, suppose a seller has a vacant house which no one has come to see. The seller doesn't want it. You drop by with a solution to his problem. You give the seller most of his asking price, plus a small cash down payment of $4,000, on the condition that he carry a mortgage on this free-and-clear house. You approach the seller and say, "I can give you $4,000 down if you will carry the balance for $125 a month until it's paid. Is that all right?"

If the seller asks for interest you say, "Why do you need interest? You have equity in the house and are not getting any interest on it now. I can only afford to give you $4,000 down and $125 a month to make this deal work for me. I have to make repairs and try to market the house myself. This is all this

house will support. It is the only way I can buy it. If this works for you, fine; if it doesn't, that's OK. I don't want to make you angry, I just want to make a deal that works for both of us."

You imply that, if he doesn't like it, you will walk out on the deal. If you don't mention interest, the seller probably will not mention it either. Show the seller that the deal depends on the house, not on you.

Remember, however, the real key to getting zero interest loans is to deal with motivated sellers only.

Being Straight with Sellers

You don't need to do anything fancy in negotiating. All you have to do is talk to the seller and find out what he or she is trying to accomplish. Be square with them. Tell them honestly what you can do. If it works, fine; if not, that's fine, too. You can't do any more.

If you are resolved that a deal has to meet your conditions or you can't be a part of it, and you relay that idea to the seller in a friendly manner, you don't need to know anything else about negotiation. The negotiation is the easiest part of the process.

Don't waste time with bad leads. If a seller is inflexible, move on to the next lead. If possible, try to negotiate as much as possible over the phone, so that you know if you have the potential for a good deal before you leave your office. I always prequalify a seller thoroughly before I see him or her in person.

Get the facts from the seller; try to fit that information into a deal. Explain exactly what you can do, and why you do what you do. If it doesn't work, move on to the next deal. Don't hide things. Be honest.

> *I keep thinking of my friend and Boot Camp graduate, Sue Butler from Augusta, Georgia. She called me once to talk and talk and talk about a killer deal she had just closed. That deal had even me green with envy. Sue told me how, in response to her ad, she had received a call from a seller in foreclo-*

sure. He owed $69,000 on a house worth $169,000 in good condition. Sue learned over the phone that the man was several payments behind and willing to walk if someone would pay just a fraction of his equity.

Sue visited the house and struck up a deal most people wouldn't believe possible. She will retail the house for somewhere near what it's worth, and she'll make an obscene profit. She indicated she would sell half interest in the house to a partner for $25,000 to $35,000 instant cash to her.

She'll let the partner pay the monthly payments while they are selling the house. Then they'll split the profit above her partner's buy-in price, which means Sue makes $25,000 or $35,000 now and half the profit when they sell.

This lady is fired up. She said she is getting more deals than she can possibly handle. I wonder what it would have cost Sue had she chosen not to attend my Boot Camp.

Tell the Seller Why

You can't make the seller's problems your problems, at least not if you plan to stay in this business! If a seller has so much indebtedness on a property that assumption of the payments would lead to negative cash flow, tell him that plainly. If you need for the price to be dropped, say why. If you need more profit in a transaction to make it work, or want to use very little cash to buy your properties, say so. You will make a lot more money by being straightforward about how you do and do not buy property.

There's no big mystery about negotiating. It's as simple as discovering the seller's needs and working out one or more solutions to meet them. If you can't, leave the door open by explaining why you can't. Quite often your professionalism and straightforward approach will lead you right back into the deal at a later date. That's when the seller calls you back because he

or she can't get the house sold under their terms or at their price.

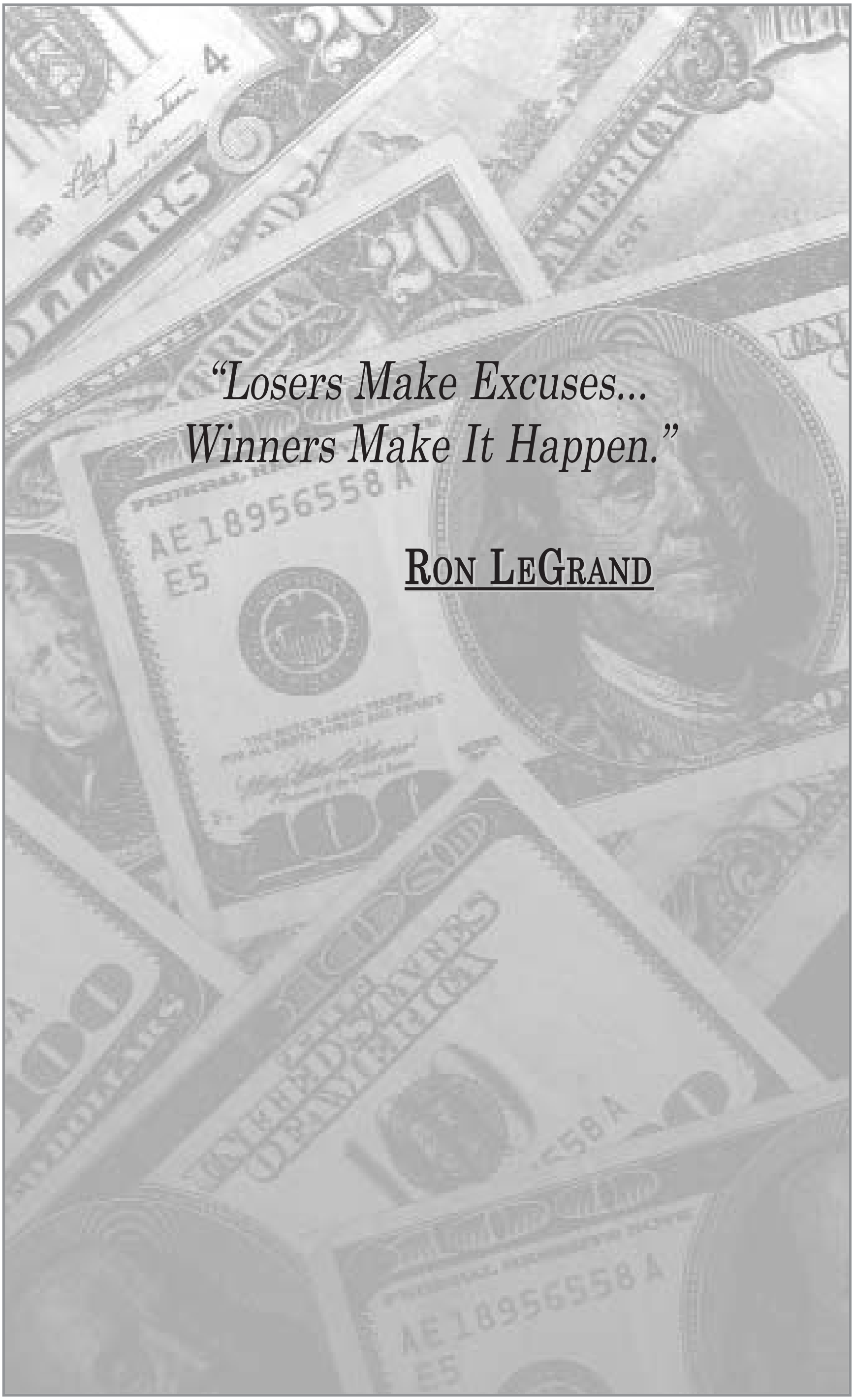
Tell it like it is, tell the truth, and back up what you say. If you don't win this one, at least you'll feel good that you did it the right way.

Making Obscene Amounts of Money Without Ever Talking to a Seller

If dealing with sellers bothers you and makes you feel inept, there is a good solution to the problem: **DON'T DEAL WITH SELLERS!**

How about taking my suggestion about using a REALTOR®? By utilizing a good agent to help you find the junkers, you can make virtually hundreds of offers on houses and never meet the seller, not even at closing. This is especially true if the seller is a bank or the government. When they sell a house, they just send a package to the closing agent. No one ever appears in person.

So, if dealing with people worries you, and you think it's a good excuse to avoid making offers . . . forget it. I've just destroyed that crutch for you. Time to get to work!



"Losers Make Excuses...
Winners Make It Happen."

RON LEGRAND

History has demonstrated that
the most notable winners usually
encountered heartbreaking obstacles
before they triumphed.
They won because they refused
to become discouraged by their defeats.

B.C. Forbes

Chapter 12

Making An Offer By The Rules

The most important thing to remember about offers is to make them! You can learn how to find motivated sellers, negotiate deals, write contracts, and fix up property; but if you don't use that knowledge, you have wasted your time. Leave behind a trail of offers. Gather facts, then use them to formulate deals. If you don't make offers, you won't buy houses. Unfortunately, too many people become professional information gatherers, then never take the next step.

Until you make an offer and get a response, you will never know just how seriously your seller is motivated. For example, I once found a duplex for which the seller owed $17,000. The house was vacant and needed repairs; there were also two unassumable loans on the property. I discovered it just by driving around and noticing a cheap, ratty "FOR SALE" sign. (That sign indicated that the seller was unsophisticated. Chances are always excellent that you will get a better deal from a FSBO displaying that kind of sign.)

The property was worth $40,000 to $45,000. The seller was asking $25,000 with $8,000 cash to mortgage. I offered $1,000 cash to mortgage, and the seller accepted. The seller didn't even think twice about it! The property was put under contract and sold for $24,000 the next day. If I had not made the offer, it would never have been accepted.

It's easy to offer too much. If you have never tried some really outrageously low offers, make a few just for practice. I once bought a house from a lender for $750 total. The house had a

new roof, and it needed no exterior paint and little work on the inside. In jest, I offered $500, and the bank said the minimum it would take was $750. The house appraised for $15,000, as is. It was located in a low-income, high-crime area which made it unattractive to much of the market. I knew, however, that if I bought it cheaply enough, there would be someone who would see it as a good deal regardless of the location. Sure enough, I was right. I sold that house for $5,000 cash.

So, what should you really offer? As a real estate trainer, this is one of the questions I hear most often, and it is not only beginners who ask. Many experienced investors, people who could be expected to know the answer, don't know either. Of course, the definition of "experienced" varies. Having a license and being involved in the real estate industry doesn't qualify anyone to give a definitive answer to "What should I offer?"

The only way to get the correct answer is to learn from someone who really knows. From my years of experience in the business, I have come up with several steps to make this process simple, fast and accurate. Every time I conduct hands-on training in the field, I do the same thing over and over again, no matter what city I'm in or what price range I'm dealing with. My students are shocked to learn how simple it is to make good offers. And it's great to see how fast they catch on after they make a few in real life.

Determining Value, the Foundation of Your Offer

This section closely parallels the Property Acquisition Worksheet discussed in Chapter 4. It is such a valuable tool for determining a sensible offer that I want you to refer to it as we continue our discussion.

First, you must know the value of the house you're buying. When I say "know the value," I mean the after-repaired, in-excellent-condition, ready-to-sell value. What will be the appraisal value after you've made the house the best looking one in the neighborhood? How much will it sell for compared to other houses that have sold recently in the same area, in simi-

lar condition, and with approximately the same amount of square footage?

To find the "comps," or comparables, you must do your homework. Either get a REALTOR® to pull some comps for you or do the research yourself. Don't guess. It's critical for you to determine the real value because everything you do from here on will hinge on that figure.

Some areas have publicly accessible databases of tax rolls and sales. These databases will actually print out a market analysis similar to the MLS service REALTORS® use. If you live in one of those areas, your job will be relatively easy. If not, you must simply do a bit more research prior to making an offer. Please remember that comps come from sales, not asking prices. An easy way to get a REALTOR® to help is to tell him or her that, if you buy the house, you may need his or her services to sell it.

The **second** step is to determine the approximate cost of repairs. This is not as difficult as it sounds. Anyone can do it with a bit of training. I tell my students to separate the work into components, then simply add them up.

For example, a roof on a 1,200-square-foot house will cost $1,500 to $2,000, depending on who does the work. This estimate assumes that you don't use high-priced, union-scale contractors, and that you have shopped a bit before hiring anyone.

Carpet, pad, labor, and linoleum for the same house will cost about $1,000 at $10 per square yard, total price. Interior and exterior painting shouldn't cost more than $1,500. Central heat and air installed shouldn't cost more than $2,500. Window replacement runs anywhere from $75 to $150 per window installed, depending on the size. A complete kitchen can be installed for about $1,000.

I know you're saying that isn't so in your area — that your prices are higher. Well, my friend, it is so in your area when you learn who to hire and what to fix. Just remember, you're not building your dream house here. You're only making your inventory ready to market.

If estimating repair costs is a problem for you, then I suggest that you get help from a friend or a contractor to get a ball-

park figure before you make the offer. Or you can attend one of my Boot Camps, where we take you out in the field and work through the estimating process. We cover every aspect of repairs, before and after, and go into great detail on how to estimate costs. Call my office for more information.

A word of caution: Don't spend too much time trying to get an exact repair figure. You're only trying to ballpark it. The objective is to get the offer made, not analyze it to death. A tolerance for mistakes is figured into the formula, as you'll soon see.

To recap, by now you have estimated the sale value of the house and the cost of repairs. (Before you close, get estimates to verify your assumptions.)

The **third** step is to determine your purchase, holding, and sales costs. You can get your purchase costs from any closing agent, REALTOR®, attorney, or experienced investor. Of course, what you negotiate when making an offer will determine what you really pay.

Figure out how long you think it will take to sell the house, and you can get a handle on holding costs. If you think three months, then figure in three or four payments, plus taxes, insurance, and utilities. Be conservative here. A six- or nine-month holding period is not out of the question. Some properties will move fast; others will be on the market for a while. We don't have a crystal ball.

Allow for the worst, but don't go off the deep end. Being too conservative can and will cost you deals because you weren't realistic with your numbers. Sometimes overestimating costs can be worse than underestimating, because it will cause you to make false judgments and lose a deal that could have been a money-maker.

If, for example, you're looking for a $20,000 profit, and your numbers show that if you hold the house for one year instead of six months you'll make only $17,000, is that any reason to kill the deal? Certainly not! It just means you must work harder to sell that house more quickly.

Your sales costs can be figured by first adding projected advertising expenses to commissions paid. Then call the lender

you plan to use and ask for an estimated cost of your new loan. Simply quote a sales price and, within seconds, they will tell you your selling costs.

The **fourth** step, and the most fun, is to determine how much profit you want in return for doing all this work. What will it be...$10,000, $20,000, $30,000? You name it — but be realistic. The higher the prices of the properties you're dealing with, the bigger the profit you should seek.

For example, if you're selling a $30,000 house, you're going to have a tough time making a $20,000 profit. On the other hand, in selling a $250,000 house, I would expect a minimum profit of $40,000. Frankly, that's on the low side.

Ron's Rule: The higher the stakes, the bigger the payoff. Remember, your costs are going to add up much more quickly when prices are high. If that's true, then your profit potential should be greater, as well. A good rule of thumb is to plug in a 20% profit of the sales price. But remember, that's only a rule of thumb.

A word of caution! My example of a $150,000 house applies in areas where that amount buys only a bread-and-butter, 1,200-square-foot, three-bedroom house. If your area has decent houses in the $40s, $50s, and $60s, that's where you should deal. Stay where the market is. Don't get "big-deal-itis."

Buying a high-priced house in a low-priced area can lead to gray hairs unless you have the skill and holding power to stay until the house is sold, which may take a while. Remember, we're only talking about buying junkers. If you deal in lease options and assumptions, the sky is the limit after you learn to minimize your risk.

In fact, some of you should specialize in high-priced houses, once you learn the ropes. If you have, or can partner with someone who has the holding power to maintain control, there are huge profits in these houses in today's market. In fact, once you get down to the nitty-gritty and really learn this business, you'll soon discover that it's just as easy to make $50,000 on a house as it is to make $10,000.

Now we're getting to the bottom line. I can sum up everything we've learned so far and put it into one simple equation:

sale price (minus) repair costs (minus) buying, holding, & sales costs (minus) projected profit = maximum allowable offer

After you become familiar with your market and learn how to estimate repairs, the whole process I have just described will take you all of five minutes to complete. Spend that five minutes doing it right, and you might just avoid several months or years correcting your mistake.

Don't be concerned about coming up with the exact numbers when you're trying to evaluate a deal. Your objective is to get within a tolerable range so you can make an offer quickly. If you're in the habit of verifying every figure before you even make an offer, your success rate is going to be very low because you haven't learned to make wise use of your time. Don't get "paralysis of analysis"!

Make the offers, get interest from the buyer, then verify your assumption. If the seller is not going to play ball, why waste time being a number-cruncher on a house you won't buy? So what if you are off $2,000 on your repair estimates! All that means is that you make an $18,000 profit instead of a $20,000 profit. If the $2,000 is that critical, then the deal is too close anyway, and you're offering too much.

Your efforts should be concentrated on making a lot of offers, not collecting facts you won't need on houses you won't buy. If you get carried away with the number-crunching, some other investor will put the property under contract while you're trying to decide what to offer. Believe me! I know this, because I am one of the investors who has taken deals from those who couldn't make a fast decision. You can't Quick-Turn in slow motion!

Making Three Offers

It's usually best to make several offers at the same time. This often causes the seller to fix his attention on which offer to accept, rather than on the more logical question of whether any of the offers should be accepted.

Here's an example: I was called once about a property with an asking price of $25,000. The property was worth about $47,000 after repairs. I made the following three offers:

First, a cash offer for $15,000.

Second, $4,000 down and $16,000 in six months for a $20,000 purchase price.

Third, $25,000 on sweet terms with the seller taking most of his equity in long-term monthly payments.

The offer for $25,000 was the seller's full price. However, it was on my terms. I offered $3,000 cash down with the seller's carrying a $22,000 mortgage at $150 a month until the balance is paid off, and I made that mortgage subordinate to new financing. It became, in essence, a second mortgage, thus giving me the right to place a new first on the house without paying off the $22,000 mortgage to the seller. (There's more on subordination in Chapter 13.)

Now, the seller had received three offers: one for $15,000 cash; one for $20,000 if he could take a little now and the rest later; and one for full purchase price if he could live with $3,000 now and a payment of $150 a month until the balance was paid.

Probably, it never occurred to him that he didn't have to accept any of those offers. And I didn't care which he accepted. I didn't put the offers in writing. I used a legal pad and wrote the figures on it, then handed it to the seller and asked him which offer he wanted. Only after a seller picks an offer do I write a formal contract.

This is a conversation you might expect.

"Mr. Seller, these are the three ways I can buy your house. See which one suits you and we'll get it working."

"I can't take just $15,000 cash for this house."

The seller will probably need time to think about it. He may want to talk it over with his wife and call you the next morning.

"Mr. Seller, I don't blame you. I wouldn't either."

"I really don't like the idea of collecting payments, because I have no way of knowing that they'll get paid. And I really don't

like the idea of somebody's having a new first mortgage on my property, putting me in second position."

"I don't blame you, Mr. Seller; I wouldn't do it either. I think you ought to take door #2, where you get some down and the balance within a few months.*"*

This is the offer he did take, because his risks were minimal and he saw that he would get all his cash in a short time. However, there is absolutely no way I would know that unless I gave him a choice. I've found that, quite often, the seller takes the offer I least expect.

In this example, the seller was asking $25,000, and the final negotiated price was $20,000 with $4,000 down and $16,000 within six months. There was no interest and no monthly payments. That's what he accepted. I made the three offers mentioned above, and it took him three days to make up his mind.

Within a few days of closing, I sold the property for $27,000. I made $7,000 on this property and the whole process took less than a month. By the way, the seller never even mentioned interest, and neither did I. You see, receiving interest was not important to him. Show me a bank that will allow you to borrow money at no interest!

Interestingly, someone else had offered that seller $22,000 all cash before I came on the scene, but then backed out of the contract because of some termite damage. The cost of repairs was $1,500. I asked the seller to drop the price $1,500, and he did. By the way, the house appraised for $40,000.

In a situation like this, you must know the value before you make an offer. If you don't know the value because you lack experience with that neighborhood or type of property, get help from a REALTOR®, or anyone else who can provide a market analysis.

With a little experience with a certain type of house in a particular area, you will be able to determine the market value when you make your first walk through. Remember, however, when you're in doubt, get help from others who are more experienced.

The exercises at the end of Chapter 13 will give you some practice in forming three offers. Get in the habit of making multiple offers, and you'll see your acceptance rate skyrocket.

Escape Clauses

Entire books have been written about escape clauses, sometimes known as "weasel clauses" or "contingency clauses." Such clauses help you void a contract when a deal goes bad. You only need one good one. One example might read, "This contract is contingent on approval of buyer's partner." Your "partner" could be anybody you wish. Another example: "This contract is contingent upon financing acceptable to purchaser." This gives you maximum flexibility either to proceed with the deal, or to end it before closing and have your earnest deposit returned.

While we're on the subject of escape clauses, let me explain what I usually use — NOTHING. That's right, none. I've found that every time I put a contingency in a contract, I'm reducing my chances of getting it accepted. Especially if I'm dealing with banks or government sellers. They just don't look favorably at clouded contracts.

While most potential buyers are making offers containing several weasel clauses, and not getting any of those contracts accepted, I'm buying the houses for less than they are offering because my offers are clean. In most cases, they have no contingencies.

I know that sounds dangerous, but is it really? What's the worst that can happen if you make an offer but can't close for some reason? Do they break your kneecaps or hold your kids for ransom? NO! They keep your earnest money deposit. That's the only thing they can do if you've signed a contract that provides for the return of earnest money as the only remedy for default. If your contract contains that clause and you can't close, that's the end of the story. No lawsuits, no broken knees, and no kids held hostage. You lose your deposit and that's it.

Obviously, the best way to reduce the risk of loss is to reduce your deposit. Put up the least amount possible and minimize your risk.

Of course, there are times when a weasel clause is appropriate and perfectly acceptable to the seller. For example, you could make your contract subject to an estimate for repairs if the house has serious damage, or subject to your inspection of the interior if you were unable to gain entry before you made the offer.

Common sense is the key in this area. Once you are proficient at quick analysis of a house prior to making offers, you will seldom need weasel clauses.

Counteroffers

When you receive a counteroffer, be thankful. It is always preferable to a simple rejection. Many deals may require several offers and counteroffers. Sometimes, contracts begin to show so many markings and changes they become difficult to read. Don't worry. Changes to a contract actually strengthen it, because they demonstrate to an even greater degree a "meeting of minds."

The same basic rules apply in responding to a counteroffer as apply in making the original offer. If the counteroffer shows a great deal of resistance, you may not be dealing with a motivated seller.

No Standard Contract

A contract may say at the top "Standard Contract." In reality, there is no such thing. In each area of the country, there are contract forms approved and promoted by REALTOR® organizations and boards, but this does not mean you as an investor have to use them.

Many investors have their own attorney prepare a contract for frequent use. The document is tailored to the investor's particular style of investing and it has as much right to be called a "standard contract" as any other form.

Using an Addendum

Many investors have a “standard” addendum they routinely attach to commonly-used contracts. It typically contains their favorite escape clauses and special clauses that favor the investor, such as limitations on liability, subordination, and many other items.

When an addendum is attached to a contract, that contract often appears to the seller to be a more conventional document. In more complex deals, a contract cannot be expected to be static. Other addendums may be added at any time to change the terms.

An addendum is written with opening language that links it to the main contract. It usually states the date of the contract, the names of both seller and buyer, and the address of the property.

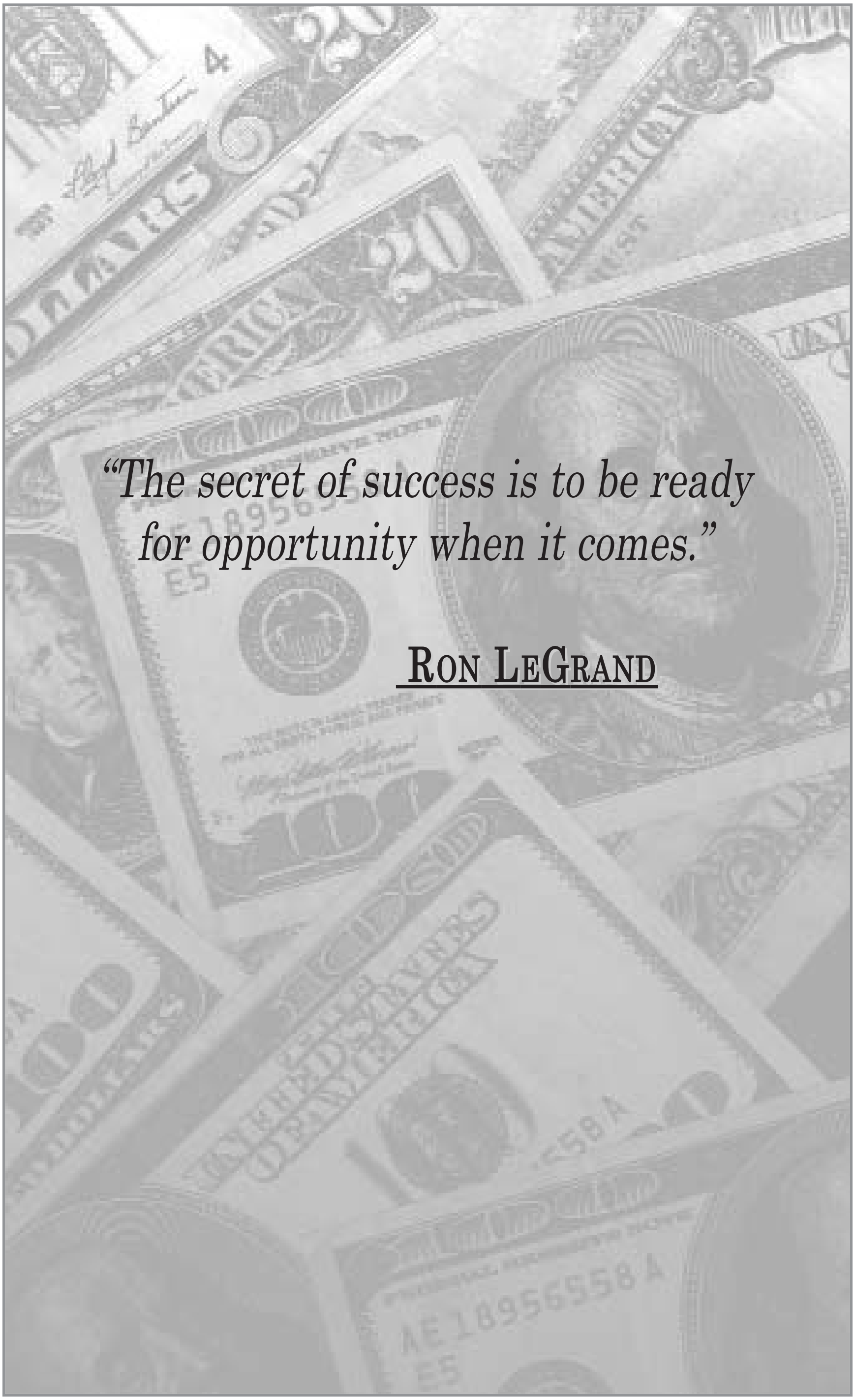
The first paragraph might read, “The parties hereto have agreed to the terms of this addendum to the Sales Contract referenced above. The terms of this addendum shall be deemed to be an integral part of said contract, but where the terms of said contract conflict with the terms of this addendum, the terms of this addendum shall control.”

Again, I’m going to suggest in most cases, you not use addendum clauses. The more junk you put in a contract, the more reason your seller will have to turn down your offer. Don’t use a weasel clause unless absolutely necessary. If circumstances dictate that you must use one, draw up just one all-inclusive clause that will give you time to do whatever it is you need to do to get the deal closed.

An example of an all-inclusive clause: “Subject to buyer’s obtaining an appraisal, at buyer’s expense, suitable to buyer, within 15 days of acceptance.” That covers anything you want it to, doesn’t it? If you don’t like the appraisal, you don’t have to buy the house. You have 15 days to clear up any details and either proceed or back off.

In my opinion, if you take longer than that to release any contingencies, you should be prepared to lose your deposit if you don’t close. It’s only fair in most cases. Chalk it up to expe-

rience and forget it. Instead of crying over spilled milk, go out and milk another cow.



"The secret of success is to be ready for opportunity when it comes."

RON LEGRAND

Section V
Money & Laws

No man ever achieved worthwhile success who did not at one time or other, find himself with at least one foot hanging well over the brink of failure

Napoleon Hill

Chapter 13

Where To Get The Money

When I started in real estate in 1982, I thought you had to have money. I had a job, but I was broke. Since then, I have learned you don't need money, credit, or steady employment to do this type of investing. Of course, having a little cash doesn't hurt, but I know some of my readers don't have any, so this chapter is especially for you.

Three basic types of financing are available. **First,** there are bank loans, which are long term, low interest, and tough to qualify for, due to FNMA and FHA guidelines. **Second**, there are alternative sources of short-term money. **Third** is seller financing, which is the ideal source of money as far as an investor is concerned.

Shortcomings of Bank Loans

It seems low-interest, long-term loans are the kind everybody thinks they need and want. The old school of thought was to buy a property cheaply, fix it up, and refinance it. The truth is, if a person had to make a living refinancing every house he bought, he wouldn't be in this business long.

Bank loans have many shortcomings. Sometimes investors, trying to improve their chances of getting loans, will cultivate a particular loan officer, only to discover that the person has quit or the bank has merged with a larger bank that is hostile to investors. Even worse, many banks add "call" provisions to the mortgage note, which means that they can call the loan due at

any time for the slightest reason! In today's climate of failing banks, it could be hazardous to your financial health to be dependent on a particular institution.

Another problem is you can not keep going to a bank and borrowing on investment properties. They will cut you off after a few loans. That makes it harder to get a loan of any kind.

Two other key problems are involved. In most cases, the terms of financing are out of your control, and you are personally liable. It is not desirable to be liable for the loan for the full term. As you increase your business and the number of properties you own, being liable for them for the long term is not necessary. Too much debt load can be hazardous, especially since you are still liable for the loan even if someone else assumes it (unless you've gotten a release of liability). Do not expose yourself to this risk by making yourself liable for the loans; do not become involved for the long term if you are liable; stay away, whenever possible, from personally qualifying for loans.

Also, qualifying for a loan can be a challenge. You must prove income and good credit, and subject yourself to a great deal of financial scrutiny. This often poses great difficulties for self-employed investors.

Traditionally, bankers prefer to make investor loans only on occupied, fixed-up properties with long-term leases. With a signed lease, you can get loans for 70% to 80% of the appraised value. But that doesn't help you to buy vacant houses needing repairs. Furthermore, you are fully liable for such loans during the 15, 20, or 30 years it takes to amortize them. Also, these loans are based on the lower of the purchase price or the appraisal within the first year, which in effect penalizes you when you want to negotiate a really low purchase price.

It will take 30 to 60 days to close on this kind of loan. You have to show a positive cash flow or have enough income to offset the debt, and you will usually be forced by the lender to assume a 25% vacancy factor. The property must be in good condition to qualify. The loans are seldom assumable, and even if they are, the person assuming the loan has to go through the same process of qualification as if they were applying for a new

loan. These loans will show up on your credit report and impact your borrowing ability in the future.

Finally, most of these loans will not allow the cash-outs investors often want. Most lenders will not allow you to go home with a check. Then there's another problem: I've seen too many investors who think borrowed money is profit and proceed to spend it as if it never has to be repaid. There's no profit until a property is sold.

Considering all these factors, why should you allow yourself to become dependent on banks? Use these loans only for long-term keepers so you can recapture your cash, and only if you can't find another way to get the money you need. You don't even have to do this for your own residence. The only time to go into a bank is to deposit money. Take control of your own financial future!

Mortgage Brokers and Short-Term Money

The best place to get short-term money is through a mortgage broker who knows what will and will not work. Brokers know what they can get in the market today. Some of them have access to private funds that require no qualifying by the borrower. Equity in the house is the only concern. These brokers will be a valuable asset when you use their services.

Remember, when I started, I had no credit. I had no choice but to utilize whatever funds were available, so I found a broker who would loan 50% of the appraised price regardless of my financial condition. He charged me 10% of every loan I made, and I paid 18% interest. The costs were high, but the rewards were worth it. I soon learned that it isn't the cost of money that counts, but the availability of it.

Because I had access to those funds, I bought up junkers and made thousands of dollars in profit on each. Let me ask you a question. Would you rather pay a mortgage broker 10% of your loan or pay a partner 50% of your deal? Tough choice, isn't it?

Of course, if you have the money to buy a house, you don't need to take out a loan or be concerned about loan fees.

Mortgage brokers work on a commission. They do not get paid unless you get paid. If you use private money, get used to the idea of paying high points and consider it a cost of doing business.

You can get a high-interest loan and still make money. Remember, it's not the cost of the money that matters; it's the availability that counts. When I went into business, I borrowed on 76 loans at 18% interest, 50% LTV ratio, six months' interest prepayment penalty, seven-year balloon payment, and 10 points up front to the broker who put up the money. I still made money on every single deal! Most of the houses were in poor condition, so I used the borrowed money to repair them before I sold them. You can do that with those kinds of loans.

You need a mortgage broker whenever you are going to deal in short-term money, unless you are going to develop your own private lenders. If you do you will save 10% brokerage to the broker and you might even get a lower rate. Develop your own list of lenders. If the house needs repairs, you may not get all the money at once. Some of it may be escrowed to allow the repairs to be made. As this is a common technique, it will benefit you to understand what it means and how to calculate it.

Here's an example: Suppose your offer is accepted for $15,000 cash on a property whose value after repairs is $45,000. The as-is value is $35,000, and the estimated repair costs are $4,000. You know you can get a loan from a private investor for 50% LTV of the fixed-up property.

Value after fix-up	**$45,000**
As-is value	**$35,000**
Repair estimate	**$ 4,000**
Maximum loan amount*	**$ 22,500**

The cost of the loan**	**$ 3,000**
Net from loan	**$19,500**
*** ($45,000 x 50%) =**	**$22,500**
***** closing costs**	

The problem is the loan is based on the after-repaired value. The broker will write the loan for $22,500 even though the property hasn't been repaired yet. You'll close the loan for $22,500. You'll pay the costs on $22,500, and you'll start paying interest on $22,500 as of that day.

The lender, however, will escrow 50% of the difference between the as-is and the after-repaired value. In this case, that amount would be 50% of $10,000, i.e., the $45,000 repaired value minus the $35,000 as-is value. The escrow would then be 50% of $10,000 because it is a 50% LTV loan.

- **Held in escrow 50% of difference: $5,000**

The closing agent will hold the $5,000 in escrow until the work is completed. If we would normally net $19,500 on this loan, we will now net $14,500 at closing, i.e., $19,500 - $5,000 = $14,500.

After the work is done, the mortgage broker will send an appraiser out to look at the finished house and, if all the work is satisfactorily completed, he will give you the $5,000 that was in escrow.

In the above example, we need $15,000 cash to buy the house and $4,000 to repair it. We need $19,000, but we are going to get only $14,500 from the loan at closing, so we would construct our offer this way:

"Mr. Seller, I'm going to give you $15,000 for this house. I'll give you $10,000 at closing and $5,000 within 60 days. Will that be alright?"

"Yes, that would be OK."

In doing this, we are fully protected. We would get $14,500 from loan proceeds. We would then give the seller $10,000 at closing and still have $4,500 left over. We need $4,000 to repair the house, so we are able to keep the $500 that is left over. Now we have protected ourselves. The seller does not have a problem getting his money. We do not have to get another loan to pay the $5,000 we owe him, because it is sitting in escrow. It will be paid as soon as the house is repaired and we get the money out of escrow.

To make this work, the seller will hold a second mortgage on this property for 60 days because we obtained the first mortgage from a private investor through a mortgage broker. This is known as "subordination." It is a useful tool for any investor.

Another way is simply to give the seller a promissory note for his balance that's not secured against the house. Even better, just have the closing agent prepare an agreement that will allow your seller to pick up the money in escrow after you have completed the work. The seller should feel safe knowing the money can't be released until the work is completed, especially if he or she has the right to collect it directly from the escrow.

You will find the amount to be escrowed varies from lender to lender. Some lenders may require as much as 100% escrow for repairs. Others may require only 50% escrow for repairs. Often, the lender will not escrow 50% of the difference, but instead will escrow what you say it will cost to repair the house. For example, if you can show the repairs will cost $4,000, some lenders will escrow that amount. You don't have much say-so in the matter. Therefore, the golden rule applies: "Those who have the gold make the rules."

Generally, the money these mortgage brokers find for us comes from private individuals. The only consideration for one of these private loans is the LTV ratio. The length of the loan may vary, but generally it's possible to go up to 15 years with a five-year "cap" on the loan. This means that a lot of brokers will amortize the loans as if they were for 15 years, but, in reality, there is a balloon payment due in five years or less. They don't want the risk of having the money out for 15 years. The money

is very liquid; they can sell the note easily if they wish, or receive payments for a short period of time

This short-term money is valuable to us as investors. If you get a good deal on a house, you can get a loan on the value of the house, not what you paid for it. A private investor is very different from a bank, because he usually doesn't care what you paid for the property. There is none of the usual verification ordeal. The only verification is the value of the property. You do not need good credit, these loans are not recorded on your credit report, and there is usually no qualifying. Private investors don't care about your personality or personal history. They are only concerned about LTV ratio and the safety of their investment. A good deal of the time they don't even check your income or credit!

As an example, suppose you buy a house worth $50,000 for $30,000 and you obtain a loan for $25,000. The private individual who makes the loan through the mortgage broker would be in good shape if you were to default because he would take back a $50,000 house. It's hard to lose in a 50% LTV situation. This is why private lenders like to make loans to us, those loans are very safe. Once you understand what you can borrow through mortgage brokers or your own lenders, you will know how to construct better offers.

In the following example, you'll see how to provide all the money needed for a purchase so that it is totally "no money down."

I once found a house with a sale price of $15,000, all cash. The property was in excellent shape and didn't need any work. It would appraise for $32,000 to $35,000. The house was put under contract for $14,500, all cash. A mortgage broker, who was also a private investor, was shown the property and was told that I wanted to borrow $16,000, secured by the property. (It was necessary to borrow $16,000 to cover the closing cost so the house could be bought with no money down.)

The mortgage broker inquired about the sale price. Upon hearing it was $15,000, he said he would loan only $15,000 on this house. I knew that the broker was getting a brokerage fee, and there were going to be other closing costs. I was going to net

\$13,500. Knowing I was paying \$14,500 and was going to net \$13,500, I had to come up with \$1,000 out of pocket. I called the seller and told him I could get only a \$13,500 loan on the house. So I asked the seller to lower the price \$1,000 or take a \$1,000 note for \$50 a month at 0% interest until the \$1,000 was paid.

The seller checked with his partner and agreed to take the \$1,000 note. I left that closing with a check for \$147.00 with no money invested. I sold the house to an investor for \$3,000 cash to mortgage a few days later.

Be careful if you have had problems in the past that lead to a judgment against you. You shouldn't take title to property if you do. As soon as you buy any property and take title to it, the judgment may attach to the property. The only thing you can do is take title in some other name, usually a trust or corporation. This way you can get a loan and not put the property at risk of having a judgment attached.

Here are a few more details about getting money through your mortgage broker. An appraisal usually will be necessary even if the loan is 50% to 55% LTV. If it is less than 50% LTV, say about 20% LTV, an appraisal may not be necessary. It takes five days to two weeks to close the loan, a relatively short time in which to obtain money.

With private loans, the property can be vacant or in poor condition. However, if the property is in poor condition, don't expect to get a loan based on its worth after repairs and be able to take home all that money at closing without escrow of repair funds. That will not happen.

Expect to pay 15% to 18% interest for money obtained through a mortgage broker. Base your business on these rates. It may seem high, but it is a small price to pay to have access to the money, especially if there is no other way to obtain funds. Eighteen percent interest will seem insignificant after a few deals. If you want access to the money necessary to put these deals together, you have to pay the price.

Sometimes you will have personal liability for these loans, and sometimes you won't. Some lenders will require a personal signature for corporate loans and some won't. The reason for

this money is to get in, get out, and pay it off. Personal liability for a loan of this type is not nearly as important as personal liability on an 80% LTV loan. On these low LTV loans, personal liability just doesn't make that much difference, because it is already so safe for the lender. Nobody will be coming after you for a deficiency judgment, even if they were to foreclose on a loan, because the loan is only 50% of the value of the property. There is just too much equity in the property to have a deficiency. And the lender knows that these loans, for the most part, will be out for only a few weeks to a few months.

Seller Financing

Seller financing is absolutely the best financing of all. Your income potential will increase dramatically if you use it properly. Seller financing is being used anytime the seller of a property takes back part of the purchase price in the form of a mortgage. The seller simply collects payments on the mortgage. It's no more complicated than that.

Why do you need it?

- **First,** it's cheaper. You can't get a 0% to 6% interest rate any other way. If you know how to ask for it, you can routinely get 0% or a greatly reduced interest rate.

- **Second**, you do not pay any points or origination fees with seller financing.

- **Third**, you can easily use special clauses in your mortgage note that are profitable to investors. For example, you can be sure that you will be able to transfer the mortgage with a substitution of collateral clause. You can also have the right to subordinate the seller financing to new financing. Both of these techniques are discussed on the following page.

- **Fourth**, an excellent reason for seller financing is there are no due-on-sale or balloon-payment provisions in the mortgage if you do not put them there.

By contrast, all conventional loans have a due-on-sale clause, plus charges for points, application fees, and appraisal charges, and many have prepayment penalties. This puts the lender in control of the loan. When we do seller financing, we don't put the lender in control. We stay in control. The provisions you insert into a privately-held mortgage are entirely between you and the seller. For instance, if we buy a property and the seller carries a second mortgage, you may not put a late penalty in it. Be careful with contracts used by REALTORS® there is usually a space to indicate due-on-sale or not due-on-sale. The problem lies in the fact that they also call for you to qualify to the seller. I white this out on the contracts I use.

Be careful about the wording of the contract because it will govern the way the closing agent handles the transaction. This can work for you or against you. If there is no due-on-sale or a late penalty in the contract, then it shouldn't be on your note.

As an example, let me tell you about a property for which I paid too much and still received a good deal. I paid $35,000 for it, putting $5,000 down and giving the seller a $30,000 mortgage subordinated to a new first mortgage. The interest rate on the mortgage was 0%, and I am paying him $250 a month until it's paid. That's the way it was negotiated going in. (I even negotiated for the contents of the house, and later had a garage sale.)

The house is in a low-income part of town, and the seller believed it to be worth $35,000. Actually, it was worth $45,000 repaired, and needed $3,000 to $4,000 in repairs. The owner had been trying to sell the house for a year, but had received no offers. He owned it free and clear, was moving, and just wanted to get rid of it.

I believe I paid him too much money, but it didn't matter a great deal in this instance. I paid him $5,000 down and borrowed $18,000 on a new first mortgage. This left me owing him $30,000 on a second mortgage for a total of $48,000. On the

other hand, I am paying him $250 a month, and every bit of that is principal. The second mortgage is being paid off at about $3,000 a year. I've owned it for four years and have already paid down the note by $12,000.

More on Zero Interest Loans

Even though I paid retail for the above-mentioned house, I will still make money because of the seller's financing at 0% interest. That is what makes this deal a good deal. When seller financing is done correctly, you can solve negative cash flow. It wouldn't work with a $30,000 loan from an institution such as a bank or mortgage company.

I don't talk about interest unless the seller brings it up. I tell the seller that I will pay him $100 a month for 150 months starting in three months. It is very rare for a seller to ask about interest when the terms are presented this way. The interest rate is not the seller's prime concern unless you make it his prime concern. If the seller had wanted 9% interest, I would have tried for a promise to keep the payments at $250 a month by negotiating a lower interest for a longer time. If the seller was really hard nosed about it, I just wouldn't buy the house. The seller doesn't really have much choice since he would have trouble selling the house as it is anyway, and I really don't have to buy it because there are too many other deals out there.

If you don't talk about interest, the seller may not talk about it either because it's the last thing on his or her mind. Sellers are interested in how much they are going to receive at closing, when they can close, and what their purchase price is going to be. Never mention interest rates and you will be surprised how often the seller won't either, provided you are dealing with a motivated seller.

Wraparound Mortgages

I couldn't talk about seller financing without mentioning wraparound mortgages. They may become an important tool for you in selling houses and sometimes even in buying them.

Simply stated, a wrap is a seller carryback loan that surrounds or "wraps" already-existing financing. You will be collecting an incoming payment from your buyer and paying out an outgoing payment, or payments, to your lender. It is to be hoped for that your incoming payment will be larger than your outgoing payment. If it's not, you need to attend another seminar on seller financing.

For example, let's say you sell a house for $60,000 with owner financing. You get a $5,000 down payment and carry back a $55,000 mortgage paying $550 per month. You owe a $30,000 first mortgage to an institution for which you are paying $300 per month, and a $10,000 second mortgage to a private seller to whom you are paying $75 per month. So in this example, you are collecting $550 per month and paying out $375 per month for a monthly net of $175. In addition, you owe $40,000, and you are owed $55,000, so you have an equity position of $15,000. The $55,000 wraps around the $40,000 so the total debt on the property is only $55,000, not $95,000. The $40,000 is part of the $55,000, not in addition to it.

In addition to the monthly spread and the immediate equity position, you also should be receiving a monthly equity buildup because, normally, the $55,000 the buyer owes you should be being paid down much more slowly than the $40,000 you owe. Sooner or later your outgoing payments will be paid off while your incoming payments keep on coming. This is assuming that you don't get paid off in cash, which is usually what happens. What a problem that would be!

Land Contracts, Contract for Deed, Agreement for Deed

These terms are used everywhere and mean essentially the same thing. Briefly, they mean a promise to pay. Until the debt is paid, the seller retains title and the buyer receives an equitable interest in the property. The buyer feels like an owner and acts like an owner, but legally does not become a title holder until the terms of the contract are satisfied, at which time the seller actually deeds the property to the buyer.

This method of sale is widely used in some states because it makes the repossession process much simpler than foreclosing. In some areas, a buyer can be removed from the house within 30 days for non-payment, with no more legal process required than an eviction.

These contracts can also be good tools to avoid due-on-sale clauses that permit a lender to call the loan due on transfer. In some states, the property isn't considered transferred until a deed is delivered.

Closing costs are another factor. Since a land contract isn't much more than a glorified lease option, there are minimal closing costs. Usually, there is only the cost of checking the title, plus attorney fees. For this reason, some investors choose to buy on a land contract just long enough to sell the house, thus avoiding dual costs. The seller then delivers a deed directly to the new buyer. In some areas, this procedure provides big savings.

Split Funding

The Split Funding method is well suited to very short-term Quick-Turn deals. As seller financing goes, it is a simple technique. The investor offers a small amount of the cash to close the deal, with the remaining amount due months later. No interest is paid and only one lump sum payment is due. You can buy a lot of houses with this one technique. The investor repairs the house and sells it retail, which means the buyer obtains a new loan, either FHA, VA, or conventional. The investor then pays off the seller financing that he negotiated earlier. He just convinces the seller to take a little money now with the rest paid in full in six months, or whatever they negotiate.

Here's an example:

	\$50,000 asking price
	\$ 5,000 repairs
	\$75,000 property value after repairs
The deal:	\$45,000 purchase price
	\$ 5,000 down payment
	\$40,000 no interest, no payments, all due in six months

Most people will not use this method to buy a house because they think they need a lot of cash. But the deal really only took $5,000, and hundreds in interest were saved.

If you can't sell the property in six months, just renegotiate the payment. However, you don't need to wait six months since the note can be renegotiated at any time in the future, even if it's five days after the closing. The only agreement is between the buyer and the seller. Whenever you have two private people involved, there is always room to negotiate.

Another possibility is to give the seller $2,000 toward the principal and get an extension on the $40,000 payment for another three to six months, or whatever you agree on.

Seller financing made this deal possible, but working through a REALTOR® wouldn't be a problem. You might have to put a little more down so the REALTOR® can receive a commission and the seller also gets a little cash. With this method, you can use the REALTOR'S® MLS book to look for deals and make offers. Look for properties that are in need of repair. I used a REALTOR® to make this kind of offer on the first 22 houses that I bought.

The key advantage to this approach is it permits you to make more of those all-cash offers sellers always want. Even if they don't get it all at closing, it's paid shortly thereafter. Here's an example. I was called about a house with an asking price of $30,000.

After repairs of approximately $3,000, it appeared the value would be about $48,000. I handled this one with split funding. I gave some cash at closing and some cash later to satisfy the seller's needs. That gave me time to sell the house.

My offer:	$20,000	purchase price
	$ 2,000	cash down payment
	$18,000	balance due in six months with no interest and no payments

Also note that I could have made a second offer, at the same time, of $15,000 all cash at closing, because I knew I could net at least that amount if I had to borrow it from a private lender.

The offers were stated this way:

"Mr. Seller, I'll give you $20,000 with $2,000 down, and $18,000 within six months, or I'll give you $15,000 cash at the closing table. Which do you prefer?"

In this case, he took the higher, split-funded offer. It is usually better to make both offers at the same time and let the seller decide which one works best for them. In our two offers, either one will work for us. Even though the seller is asking $30,000, we offer him $15,000, all cash, and see if he will take the offer. Cash talks! Neither of these offers is complicated. They don't have a subordination clause or any other difficult-to-understand terms.

I was once called about a property that was owned free and clear. The purchase price was $20,000. I gave $4,000 down, with $16,000 due in 120 days, no interest, no payments, just the principal balance payment.

The property appraised for $42,000, after $3,000 worth of work. I didn't want to do the work, so I sold the property for $27,000. The buyer put $6,000 down. I was able to sell the house before I had even bought it. The buyer and seller were at the closing on the same day, but thankfully, not in the same room!

I took $4,000 from the $6,000 I received from the new buyer and gave that to the original seller. A total of $2,000 went into my pocket at closing. The new buyer paid $27,000, and after the $6,000 at closing, still owed $21,000 to me. After I gave the original seller $4,000 down, I still owed $16,000. When the new buyer paid his debt of $21,000 to me, I paid the $16,000 to the seller and made another $5,000 net on the property.

This deal worked because I gave the seller some cash at closing and the rest in 120 days, with no interest and no payments. Split funding the payment, by giving some down and the rest later, is one of the secrets to short-term Quick-Turns. I had a contract. I told the seller exactly what I was going to do, and I did it. People usually have no problem waiting six to 12 months for their money if you ask them.

SUBORDINATION

"Subordination" is a tool that can make a lot of money for you. The right of subordination is a clause you can insert into your contract. It permits you to get a new first mortgage, even though you already have seller financing in place. In other words, subordination occurs when the seller agrees to take back a second mortgage and allows you to get a new first mortgage on the property.

It works best with houses carrying low or no mortgages. When properly used, subordination combined with seller financing makes short-term Quick-Turn deals possible with the least amount of cash, or even no cash. Many times it even allows you to bring home thousands of dollars the day you buy a house. Subordination also serves as a useful financing tool to make properties saleable to people who might not otherwise qualify.

Before I explain this, let's examine the clause you should incorporate into your purchase and sale agreement to make subordination possible. This clause is included in the contract, or in the addendum to the contract:

> **Subordination Clause**: Seller understands that the buyer(s) or assigns will be getting a first mortgage of a maximum of the appraised value less the purchase money mortgage to the seller(s). Seller(s) hereby acknowledge that they understand that the purchase money second mortgage they will hold is junior to the above-mentioned first.

If an owner sells you his house for $30,000, with $14,000 down, and he agrees to take a subordinated second mortgage back at $16,000 you have the right to go get a new first mortgage on the property without paying the owner his $16,000 at that time. Instead, his mortgage will remain a second, and you will get a new first. You will pay him whatever payments you agreed to pay him, but he does not have to get paid off at the time that you get the new loan.

If you read the clause carefully, you'll see that it protects the seller by preventing you from over-financing the property. The total of your new first and his seller carry-back second can't exceed the value of the house.

Let's examine a typical example of the use of the subordination clause. I once talked with a seller who was asking $30,000 for his house. The owner indicated he would hold paper, that is, he would be willing to take payments for his equity. I knew that his house was really worth $40,000 after repairs, and needed $3,000 in repairs. I made an offer of $25,000 as the purchase price, of which $5,000 would be in cash and the remaining $20,000 would be on a subordinated mortgage.

This meant that the owner was willing to take a $20,000 mortgage that he agreed would be in a second position, giving me the right to go out and put a new first mortgage on the property. The seller was willing to do this to get the $5,000 cash and get rid of his house.

Next, I applied for and obtained a new first mortgage for $15,000, using private lenders, and let the seller hold the second mortgage for $20,000. The property was then financed for a total of $35,000. As it was worth $40,000, it was not over-financed. Of the $15,000 first mortgage I received, I subtracted the $5,000 cash down payment, the $3,000 for repairs, and another $2,000 in closing costs, retaining $5,000 net cash.

$20,000	seller financing is subordinated and becomes a second mortgage
$15,000	new first mortgage, borrowed on $40,000 value
- $ 5,000	down payment
- $ 3,000	repairs
- $ 2,000	closing costs
$ 5,000	net cash

Because the house was worth $40,000, it was easy to get the $15,000 new first mortgage. I sold the house on a wraparound mortgage and made sure the first and second got paid.

I didn't tell the seller how much I was going to borrow on the first, and he didn't ask. I made it clear to him, however, that I

was going to put a new first mortgage on the house. The title company also made it clear to him, so he couldn't come back later and cry foul. The seller must be highly motivated and the property in need of repairs for you to be able to do this. And the property must have a lot of equity. This deal can work even if there is an existing first on the property, and the seller agrees to take a third, allowing you to go out and get a new second, as long as the payments allow adequate positive cash flow.

The seller must understand the subordination! When I do a subordination deal, I tell the seller exactly what I am going to do, why I am going to do it, and, sometimes, how much I am going to borrow. If he doesn't like it, he can go find someone else to buy his house. You can't do this without the seller's knowing what is going on. The title company or attorney will not close the deal unless they know the seller understands.

Why do sellers take a subordination? It works for them for three reasons: **First**, they are extremely motivated. **Second**, they usually have a junker of a house they can't sell, or they don't have the funds for repair. **Third**, in most cases, they are getting more money from you than they would get if they sold all cash to some other buyer. Even though you aren't paying them all cash, quite often the sales price means more to the seller than the amount of immediate money.

In 9 of 10 subordinations I have done, I have made an alternative, all-cash offer at the same time, and I always documented it in writing. If there is ever a dispute later where a buyer claims he was taken advantage of, you can say, "I gave this man a choice of three different ways I would buy his house. He picked this way." More often than not, sellers will take the subordination deal rather than the low, all-cash offer. A motivated seller has a reason to take a subordination deal. If you fail to ask, however, you won't get anyone to do it.

Let me tell you about another deal I negotiated in a low-income part of town. The seller thought his house was worth $30,000. In fact, it was probably worth $45,000 repaired, and needed $3,000 to $4,000 in repairs.

He had been trying to sell this house for a year. He had called all the house buyers who advertised in the newspaper.

None of them made him an offer. He had had it with this house. He was tired of talking to people about it. He was tired of taking phone calls about it. He was tired of paying for ads and getting no response. He was sick and tired of looking at this piece of junk that smelled disgusting and needed a ton of work.

He just wanted someone to come and solve his problem. He believed his house to be worth $30,000, but he was more than willing to take $20,000. I discovered that he had inherited the property from his aunt three years before; he owned it free and clear. When I went to see him, I was the only one who had ever talked seriously to him about buying this property.

This is how the conversation went:

"Mr. Seller, I can buy your property two ways. I can give you $10,000, all cash. That's way number one."

I wrote this out on paper for him. I did not put it in contract form. I wrote it on a legal pad with a big "$10,000 Cash." Before telling him the second option, I wrote the number "2" on the page.

"For option two, Mr. Seller, I can give you $20,000, with $5,000 down, and $15,000 on a second mortgage, paying you $100 a month with the first payment due in four months. Understand now, Mr. Seller, since this house is in such bad shape, I have to have the right to go get a new first mortgage on it to raise the capital to put it back into condition. My experience tells me after I do that, Mr. Seller, I am probably going to put a mortgage on this property somewhere in the neighborhood of $20,000. OK? You understand I have to make a profit at what I do. Or I am not willing to do this. This is a big job, isn't it?"

"Yes, OK."

"What I am going to do is buy your house, repair it, then get a mortgage on it for $20,000 to $25,000, depending on what it's worth when I'm done."

"Yes."

"OK. You see, that is the only way I can buy your house, Mr. Seller. I'll start your payments four months from the time we close. But you need to understand what I am doing and why I am doing it. OK? If that's a problem for you, Mr. Seller, I would rather not do it. Maybe you would be better off taking the $10,000 cash offer. What do you think?"

"No, I'll take choice number two."

"OK, sign here, Mr. Seller."

It was the seller who told me which offer he wanted. I didn't try to make the decision for him. From the above conversation, we can understand why the seller would be willing to take offer number two.

Here is another example of an interesting deal involving subordination. The purchase price was $18,000, with $2,000 down; the seller agreed to carry a subordinated second mortgage of $16,000 at $125 a month with 0% interest until paid. When I sold the property, the new buyer obtained a $15,000 first on it and took over the $16,000 second. There was then a total of $31,000 owed on the property, and it was worth $32,000 to $33,000. I gave the new buyer $3,000 at closing to repair the house, then made him sign that the repairs would be done and he would take personal responsibility and liability on the $16,000 second. With a $15,000 loan, a $3,000 rebate, and a cost of $2,000 to close, the profit was $8,000 net. My knowledge of financing made this transaction work.

The seller agreed to this deal because the house was in a weak selling area. It was in poor condition, and the seller didn't have any other offers. Nobody else offered an alternative solution to the problem. I was paid well for problem solving.

Incidentally, investors are not the only ones who profit from subordination. Builders also use the subordination technique. They make the landowner's mortgage note subordinate to the construction loan, and when the permanent financing is put in place, the landowner gets paid off. I didn't invent the technique, but I use it because it is such an incredible, cash-generating tool.

Substitution of Collateral

Substitution of collateral simply means I am taking an existing mortgage on one property and transferring it to another. I am substituting the collateral from one property to another.

As usual, we have to find a motivated seller or we can't make the deal. We should look for a seller who has a reason to do a substitution of collateral. Without a motivated seller, none of this will work. Here is an example of some typical numbers:

- $30,000 asking price on house "A"
- $3,000 repairs
- $40,000 value after fix-up

My **offer** was:

- $25,000 purchase price for house "A"
- $5,000 down payment
- $20,000 first to seller with substitution of collateral

We have a lot of equity in house "A." We intend to profit on that equity by repairing the house and finding a cash buyer for $40,000. We have to have another property, however, to be able to substitute the collateral. We will call that house "B." House "B" is a house that we own, which has enough equity to support the $20,000 we're transferring from house "A." It has a first mortgage of $25,000 and is worth $45,000. We ask the seller to take $5,000 cash and move the remainder of the first that he holds, $15,000 in this case, from house "A" to house "B," at which time it will become a second. We can do this at the time we close the sale on house "A," or any time prior.

The **negotiation** goes as follows:

"Mr. Seller, I owe you $20,000 on house 'A.' What I'd like to do, instead of taking 20 years to pay you as we agreed on in the beginning, is to give you $5,000 now, in cash. Could you use $5,000 cash now, Mr. Seller?"

"Yes."

"OK, instead of leaving the mortgage on house 'A,' what we're going to do, with your permission, is to take the remaining $15,000 I will then owe you on house "A," and take our payment that I was paying you, $200 a month, and reduce it down to $150 a month. Then we'll move it to my house over on "B" street. My house over on "B" street is worth about $45,000. I have a $25,000 first on it. So I'm asking you to take a $15,000 second on house "B," but I'm giving you $5,000 to make it worth your while. Is that fair?

"Yes, that seems fair to me."

I'm still going to make payments to the seller, but in a lesser amount. I gave the seller $5,000 cash to convince him to do this. I may or may not agree to this prior to purchasing the seller's house. If I had agreed to it, there would have been a substitution of collateral document attached to the mortgage I gave to the seller, and there would be a clause in the contract that says I have the right to substitute this collateral at a later date. You will find a sample of this document in Appendix F.

I am not really asking the seller, in this example, to do anything he had not already agreed on as a condition of the original purchase of this property.

What if I didn't agree on this condition, or didn't want to bring it up at the beginning of negotiations to buy the property from the seller? I can still do it, because $5,000 carries a lot of negotiation punch. I possibly could have done it with $1,000, $2,000, or $3,000. In this example, I am paying the seller 25% of what I owe him. Why wouldn't the seller do it? He most likely would because of the up-front cash. I offered him $5,000 to move his mortgage instead of discounting it because I could put more cash in my pocket by moving the mortgage.

Maybe I could have gotten the seller to discount the mortgage by $5,000 and paid him off the $15,000, but I would only be putting $5,000 more in my pocket. However, if I pay the seller $5,000 and move the $15,000, I would be putting $15,000 more in my pocket. The above deal would work this way, since house 'A' is free and clear after I move the seller's mortgage to house 'B.'

$40,000 cash sale from someone who buys it FHA or VA
-$ 5,000 original down payment
-$ 5,000 additional payment to seller for moving mortgage
-$ 1,500 closing costs
-$ 3,000 repairs
$25,500 cash in my pocket

Not bad for a house that sold for only $40,000!

I found a buyer who obtained a $40,000 FHA loan. I got back my $5,000 original down payment and collected the seller's $5,000 prepayment for the right to substitute at the closing table. Since the money wasn't disbursed until the sale closed, I didn't have to come up with the money to get the seller to do this.

At closing, I received the money from the buyer, who had obtained an FHA loan. The buyer brought a check for $40,000 to the closing. I already had an agreement to move this mortgage, signed by the seller, saying I owed him $5,000. I handed this agreement to the closing agent. The closing agent wrote a check to the seller for $5,000 and had the seller come down, after closing, to sign a substitution of collateral form.

The mortgage was no longer on his house. It had been transferred to house "B," about which I gave the title company a legal description. The seller got his check, and I got my substitution of collateral form signed. The title company could then issue a clean title to house "A," because the seller's mortgage was no longer on the property.

I wouldn't let the seller know I was selling house "A" — and I wouldn't ever approach the seller to substitute the collateral — until I had a buyer for house "A" and was ready to close.

Another twist on this deal was that house "B," which was worth $45,000, had a $25,000 first mortgage and now the seller's $15,000 second mortgage. That makes house "B" financed to 90% with no points and no qualifying. It would be a good house to sell for $45,000 with $5,000 down and a wraparound mortgage created for $40,000. Three years later, if the buyer wants to sell and pay off the mortgage, I can go to the seller and substitute the mortgage again, or pay it off at a discount. With private sellers, as long as you owe, you have flexibility.

You can't do a substitution of collateral without seller financing. It is not complicated to put into effect, but the seller must be informed and aware of what you are doing. You can't sneak this by the seller. Also, make certain that the property to which you move the mortgage is not over financed.

Here is another example of how this technique can put cash in your pocket. I purchased a house for $19,000. I gave the seller an $8,000 down payment, let the seller take back a mortgage note for $11,000, then signed a substitution of collateral form with him.

When I moved the mortgage, I didn't give the seller anything to encourage him to move it. I did about $5,000 worth of repairs to the property and sold it for $41,000. I obtained a new loan for the buyer equal to $32,000, and I took back a $4,900 second mortgage, with the buyer's putting down $4,100.

At the time I did this, I had the seller move the $11,000 mortgage to another property. I put $11,000 more cash in my pocket than if I had paid off the first mortgage held by the original seller. These things work, but only if you ask. The original seller had agreed to the substitution of collateral because her house was in poor condition and was located in a bad part of town, and I gave her the price she was asking.

Both the subordination agreement and the substitution of collateral agreement forms will be filled out by the closing agent. You don't have to know how to complete them.

Raising Money Fast Without Borrowing

When you have the cash, it is so much easier to invest! Those who enjoy instant access to large sums of cash do not need to work with lenders for purchase money. Most of us, however, need to raise the cash to do the deal. We have already discussed ways to reduce the need for cash by split funding, and how to make it easier to raise cash through a seller by using subordination and substitution of collateral. Now, let's talk about raising cash fast, without going to a lender or a seller for a real estate loan.

The most obvious way to accomplish this is just to ask a partner — often another investor — to put up the cash. Before you approach a partner, however, it's wise to have all your numbers worked out and the entire deal planned very carefully, using conservative estimates. It is customary to split equally with the partner whatever profit is made.

Earlier in this book, I told you about investment groups. That's where you can find a great many potential partners. You also can advertise in the newspaper. Many people in every city in America have money to invest in real estate, but they do not have the time or knowledge.

Whenever you want to make an all-cash offer, and don't think you want to use any of the methods listed above, whether it be loans, split funding, subordination, or whatever, you can always team up with a person who has the cash. If you can find the deals, there is an abundance of people to work with you as partners. All that's really necessary are knowledge and persistence.

One clever way to raise a down payment is to trade something you already own. Anything of value, such as a motor home, car, truck, land, or appliances, can be traded for a down payment on property. You can even trade knowledge or services. Find out what the seller wants. See if you can take care of those wants without cash.

Another way to raise cash fast, one that is far too often overlooked, is the careful use of credit cards. Credit cards are an excellent source of money. People worry about the high interest

rate, but when you're in a short-term, Quick-Turn deal, the actual difference in interest dollars is very little.

As I mentioned previously, when I started in this business, I made 76 loans at 18% interest. The availability of the money was important, not its cost. I recommend, however, that you not use credit cards to buy property unless you pay the cards back with the profits. Otherwise, you could get into big financial trouble. But if you use cards wisely, they are an excellent line of credit.

Get as high a credit line as possible on your cards. If you have a $5,000 line of credit, write to ask for a $10,000 limit. Get more credit cards before you actually need them. Don't apply for more than three in any one month. That would necessitate too many credit checks at one time and cause turndowns. Just get a couple at a time. There are thousands of sources of credit cards in this country, many of which have no annual fee. And some of them don't even check your credit.

If you acquire ten cards and each has a credit limit of just $2,000, that's the equivalent of a $20,000 line of credit. If you gradually raise the limits on those cards to $5,000 each, through careful use and periodic asking for increases, you then have access to $50,000 in instant cash.

As your income grows, many of these credit cards can be raised to as high as $25,000 each. Almost all credit cards now permit cash advances up to the credit limit. Since there is no limit on how many credit cards you can have, low initial credit limits need not stop you, and access to $100,000 or more in "Fast Cash" is possible. How many all-cash deals could you do with access to that much cash?

Even if you have poor credit history, you can acquire a secured credit card simply by making a deposit equal to your credit limit. In time, this limit will be increased with no additional deposit.

Making the Seller Your Partner

This section could just as well have been titled "How to buy a big, expensive home that you thought you couldn't afford." The main difficulty in owning an expensive home is that you

cannot buy it with no money down and maintain a reasonable monthly payment. The lower your down payment, the higher the monthly payment will be, and that could cause payment problems. Equity participation is a technique whereby you can make the seller your partner and reduce your monthly payment to a comfortable amount.

Suppose, for example, you wanted to live in a $300,000 house in an area where the average price was $100,000, but you could only afford payments of $1,000 per month. As a general rule of thumb, one would expect payments on a house of that value to be about $3,000. The strategy is as follows: **First**, find a large home with a lot of equity in it. Look for a flexible owner who does not need his cash out of the house, and who is willing to take monthly payments for his equity.

Many houses are free and clear or have a large equity. If the property is free and clear, the chances are good that an owner doesn't need cash from his house. Look for a house that would be hard to move. The payments, alone, on a $300,000 house would put a lot of people out of the market. Look for a house that needs some repairs.

The **second** step is to negotiate a purchase price somewhat below the retail value. Suppose you negotiate a price of $250,000. The conversation might go like this:

"Mr. Seller, I have a way to buy your house and pay you more in the long run, if you are willing to take less per month now. Are you interested in hearing more about this?

"Yes! Tell me more."

"Well, I want to make your house my residence, so I can buy it now for $250,000 and give you back a mortgage, if we can agree on the terms. My only problem is I just can't handle the normal monthly payment that comes with a house in this price range. So what I am proposing we do is, I'll pay you $10,000 down and you take back a mortgage for $240,000. But instead of a high payment that I can't afford, I'll give you $1000 per month which you call interest. I'll make you this interest-only payment each month and still owe you all the principal.

"Now, I know this is a low payment, so in return, I'm willing to compensate you this way:

"I'll do the repairs at my expense and maintain the house. I'll pay the taxes, insurance, and all other costs on this house until I sell it within a five-year period.

"When I do, I will give you one-half the profit above your $250,000 sales price. I feel that, by that time, the house could sell for $350,000. Therefore, you would not only receive your $240,000 balance, but an additional $50,000 profit in lieu of a higher monthly payment now. I believe this would solve my problem and yours, don't you agree?"

You might have to ask three or four people before you get an acceptance. Even if you find people don't trust you enough to do other creative financing, you can still usually lease their house. We don't need to own the house to make money on it. Control is more important than ownership. The owner will get the tax write-off on it. All you have to do is convince the owner you will do what you say you'll do. In effect, you are making the seller your partner.

Place an ad in the paper indicating you're looking for someone with whom to "equity share" a big house. Use the MLS book. Make offers on houses that no one else is looking at — those with high price tags. It is possible to make all kinds of arrangements with a seller. Here is a way to make the seller your partner on a house you don't intend to live in.

"Mr. Seller, I'm not going to buy your house because, frankly, it's too cash intensive, and I don't have the money right now. But this is what I will do. If you'll put up the $3,000 that it takes to repair your house, I'll do all the work, sell it for you, and we'll split the profits above our agreed-on purchase price. Is that fair? I may even make your payments for you while we're doing all this, just to show you my serious intent."

BACK TO BASICS

Of course, let's not forget the absolutely easiest way to raise money with single-family houses. **WHOLESALING**! It just

doesn't get any easier than finding the deal and passing it on to someone else who wants a bargain. It's nothing more than a paper shuffle. Easy in, easy out, no loans, no repairs, no partners, no credit, no long holding period, little or no money needed, no risk, and fast cash profits.

Because wholesaling is such an important part of a serious investor's business, we devote a large portion of each Boot Camp to making sure every single student leaves with a thorough understanding of wholesaling. It's what many of them use to create income that triples the amount they earned in their old jobs.

> *Another example of unforeseen good things happening from unplanned events is the story of Dave Rogers from Anchorage, Alaska. Dave had purchased my course. The story of how that happened is exactly what I meant when I said many opportunities jump in front of us when we least expect them.*
>
> *Dave had heard about me from a third party, and he got in touch with me. When I mailed Dave my course in May 1992, I also sent him a letter about my upcoming Boot Camp in Houston. What I didn't know then was there was no way Dave could possibly afford to attend. He had serious problems. He had been divorced for a couple of months and was in deep financial trouble. Since I didn't know Dave at the time, there was no way for me to realize he is one of the most stubborn men on earth, and he hates it when he can't do what he wants when he wants.*
>
> *Apparently, he really wanted to attend the Houston camp, because he borrowed enough money from his ex-wife and ex-mother-in-law to do it. Then, he returned to Alaska, filed for bankruptcy, and drove here to Jacksonville with the few possessions he could load in his crummy car.*
>
> *In his first three months in a strange town, he used what I had taught him. He purchased $283,000 worth of houses for $92,000, without spending a dime*

of his own money. Of course, he didn't have any to spend, but the point is, it CAN be done by making the effort to match knowledge with opportunity and taking action. Every one of Dave's deals was wholesaled immediately to produce the instant cash needed.

Structuring an Offer

You can use the following two scenarios to practice for making offers before you go out into the real world. Master these scenarios at home first. You must know how to manage the situation when you start for real. It's better if you make a mistake here than in real life. Following the scenarios are some possible answers.

WHAT WOULD YOU OFFER?

SCENARIO 1 : You call about this house after reading an ad in the newspaper. The owners say they inherited the property. It's free and clear, and they are asking $40,000, all cash. After inspection, you determine the house would be worth $50,000 if you spent about $3,000 on it. You have $4,000 left on your Master Card. Your credit is good and you have steady income.

OFFER 1

OFFER 2

OFFER 3

SCENARIO 2 : A REALTOR® brings you a printout about a house whose owners are highly motivated. The house has been neglected. The sellers can't stand each other and are getting a

divorce. The listed price is $49,900, and there is a $12,000 mortgage. You inspect the house and conclude it's worth $49,900, but only after you spend about $5,000 to repair it. You are a full-time investor with poor credit, no rich relatives, no rich friends, no credit cards and no provable income, but you know there is a way, because I said so.

OFFER 1

OFFER 2

***SCENARIO 1:* Answers**

Offer 1: ($25,000) all cash. Pay all cash, but get a very low price. Borrow the $25,000 from a finance company and use a charge card to fund the repairs, with the intention of retailing for a large profit. Or, alternatively, simply wholesale the contract to another investor who is better equipped to develop the deal and pick up a quick $3,000 to $5,000 the day he closes. Or, partner with this same investor and pick up an immediate $3,000 finder's fee, then split the retail profit when the house is sold. You do the work; he puts up the money.

Offer 2: ($28,000) $3,000 down, balance due within six months, no payments until due. Use your charge card to buy since it takes only $3,000 down and allows time to implement one of the above solutions. Or take title and sell the property to an owner/occupant as a handyman special for a discounted price of $40,000, leaving you a quick profit of $12,000 without doing any repairs.

Offer 3: ($35,000) $7,000 down, seller to carry back a second mortgage of $28,000 subordinate to a new first mortgage. The

second will bear payments of $250 per month at no interest until paid. The house is worth $50,000 after repairs, so you can borrow up to $22,000 on a new first without over-financing ($50,000-$28,000 seller carryback second = $22,000). A $22,000 new first mortgage, less the $7,000 down to seller, less the $3,000 in repairs, leaves $12,000 cash that you can call profit as soon as the house is sold. Now would also be a good time to sell for $54,000 via owner financing with a wraparound mortgage or land contract of $50,000, getting a $4,000 down payment from your buyer.

This means you now have $12,000 left from your loan, plus $4,000 from the buyer for a total of $16,000 profit. Or, alternatively, instead of your getting the new first mortgage, take your buyer to a lender and let him sign on the new loan for $22,000. He will need very little qualifying to get approval for a loan at such a low LTV ratio.

If this is done, you can have your buyer originate a wraparound mortgage to you, for the same $28,000 you owe the seller, except bearing interest. The buyer pays you; you pay the seller, allowing you to keep the interest and protect the seller at the same time.

You will also be setting yourself up for another payday in the future because, sooner or later, the house will get cashed out, giving you the opportunity to either discount your underlying loan to the seller or move it to another property you own, so you receive all the cash yourself. This process is called substitution of collateral and was discussed earlier in this chapter.

I know that all this fancy talk about seller financing will not sink in the first time to some of you, but don't worry. The more you study and do, the easier it becomes. If the third offer stumps you, just ignore it and work on the first or second options. Either one can make several thousand dollars for you within a few days.

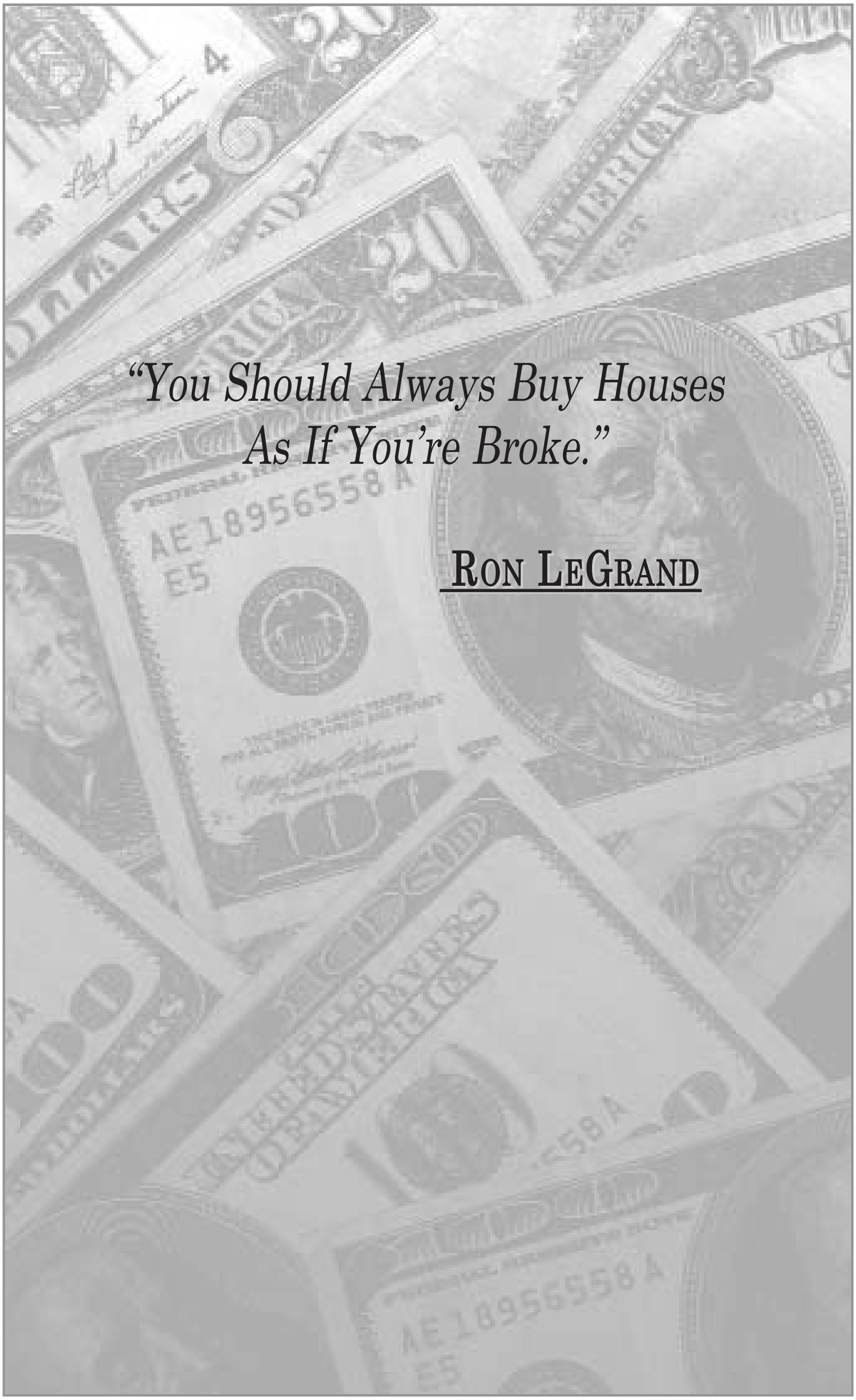
***SCENARIO 2:* Answers**

Offer 1: ($20,000) $8,000 cash and assume the $12,000 mortgage.

Offer 2: ($23,000) $3,000 down, assume $12,000 mortgage, and give a second for $8,000, all due within six months, no payments, and no interest.

For both the above offers, re-read the Scenario 1 answers and apply the same solutions. The only difference is that you're assuming a loan for part of the purchase price instead of paying it off with cash.

The best executive is the one who



"You Should Always Buy Houses
As If You're Broke."

RON LEGRAND

has sense enough to pick good men
to do what he wants done,
and self-restraint enough to keep
from meddling with them
while they do it.

Our chief want in life is sombody
who will make us do what we can.

Ralph Waldo Emerson

Chapter 14

Land Trusts and Legal Considerations

Are you aware that every time you sign your name on a note, you're risking everything you own to fulfill that debt? Did you know that in most states creditors can sue for default on a mortgage note and come after you personally without even bothering with the house? That's their right. They can look to all your other assets to satisfy your debt in place of, or in addition to, the property you mortgaged.

But don't worry! I have a solution to that problem for some types of financing. This solution also solves several other problems associated with owning real estate. It is simple, yet it is extremely important to all of us who buy houses. Anyone can use it, and it doesn't cost a nickel extra to take advantage of it. This solution is called a "land trust." First, let's learn what it is. Then we'll do a crash course on why and how to use it.

Definition of a Land Trust

It's irrelevant to us, as investors, how the land trust came about, or that there's a lot of history behind it. Such trusts were first used hundreds of years ago, but we only need to focus on how they can benefit us now. For simplicity, consider the land trust a method of taking title to property, nothing more, nothing less.

It is an agreement between the officer of the trust, called the "trustee," and the person who really controls the property. That

person is called the "beneficiary." The trust identifies certain duties that each agrees to perform. The agreement is signed by both parties, and then it becomes the property of the beneficiary, with the trustee sometimes retaining a copy. The beneficiary owns the trust, and the trust owns the property. The trustee has only those powers granted to him or her by the beneficiary, and he or she performs minimal duties — usually just signing the documents. The trustee has no personal liability or responsibility to do anything more than those minimal tasks.

Reasons to Use a Land Trust

Savvy investors use land trusts every day. This powerful document offers personal and legal advantages not associated with any other kind of property ownership. First, I'll list the benefits and then we'll discuss each briefly.

Privacy

Secrecy is an important aspect of a trust. Nobody knows you are the beneficiary, except for you, the trustee, and your closing agent. When somebody checks the title to the property, you don't own the property. In fact, you have no interest in the property as far as the rest of the world knows. All they see is that the property is owned by a trust. They do not know the beneficiary's name. The only way they will find that out is by court order, or if your trustee has a big mouth.

A deed is recorded at the courthouse. It bears the name of the trustee as grantee. Nowhere does it mention the beneficiary's name. The trust document, itself, remains in the possession of the beneficiary. It isn't recorded anywhere, nor does it become public knowledge. Therefore, you have total privacy.

Loan Liability

In the absence of a due-on-sale clause, the trust can be used to eliminate personal liability totally. Most FHA loans closed prior to December 15, 1989, and all VA loans closed prior to

March 1, 1988, do not contain due-on-sale clauses. Therefore, they require no qualifying to assume. So, the trust as a legal entity can assume those loans, thus foregoing the need for you to assume them personally. If, in fact, the trust can assume the loan, then why would you ever want to do it personally? The answer is, of course, you never would. This move keeps the loan off your credit report and your financial statement. You assume no liability for the debt. By the way, it costs no more to handle things the right way.

The trust can and should be used to create seller carryback financing. There is absolutely no reason for you to ever personally sign a note to a seller. If you don't heed this advice, you may very well be headed for an expensive real world seminar.

The process really is simple. The trust takes title to the house, so the trustee signs the note as trustee. Your name appears nowhere on the document. Therefore, you are not personally liable. As long as the words "as trustee" appear after the trustee's signature, he or she is not liable, either. Presto! You have just created a note that won't ever come back to haunt you.

Lawsuit Protection

Another key reason to use a land trust is lawsuit protection. It is not a foolproof plan to keep you from getting sued, because your beneficial interest can be attached. However, it is a lot better than owning property in your own name. The first thing an attorney will do in preparation for suing you is check your assets. All he can do is check your name. If your name doesn't show up, and it won't, he does not have a clue that you have anything to do with this property.

The only way he can find out is to get wind that you own properties in trust, call you in for a deposition, and ask you point blank, "Do you own any interest in any trusts?" At that time, you have to either answer yes, or commit perjury.

Let's assume, however, that you leave your properties titled in your own name, or even worse, jointly with your spouse. Now, you get sued, and the plaintiff is awarded a large judgment over and above your insurance benefits. The minute that judgment

is recorded, it attaches to your properties and prevents any future sale or refinancing until the judgment is satisfied, if ever. In fact, the plaintiff can now start action to attach your assets, and everything you worked for is lost.

On the other hand, let's say your properties were in a land trust before the action started. First of all, a name search will produce nothing because you own nothing, as far as the public records are concerned.

This alone will stop most lawsuits in their tracks. If it is obvious a judgment can't be collected if won, it would be fruitless to pursue a lawsuit and incur the costs unless insurance proceeds were available. Under those circumstances, the case usually would be settled out of court.

But let's assume none of that happens, you get sued anyway, and they get a judgment. It doesn't attach to the properties because you don't own them. The trust owns the house, and you own the trust.

Before we get too smug, be aware this does not prevent a good attorney from coming after your interest in the trust. But first, he must discover you have an interest; and, second, someone must be willing to pay the high costs of another separate, expensive and risky lawsuit. While it's not a foolproof lawsuit protector, it sure beats owning property in your own name.

Estate Planning

A land trust is a good first step to estate planning, but it is by no means a total plan. Many kinds of trusts and other entities are available, but that's a subject I'll deal with in another book.

If your property is in a trust and you die, whoever is your beneficiary now owns this trust. Whatever interest you owned, he or she now owns.

However, to avoid probate, in most cases, this needs to be taken a step further. The most widely used method is to place the land trust in a living trust. Several courses on this subject are available.

Ease of Transfer

When you sell to a buyer who understands trusts, quite often he or she would prefer you to assign him or her the trust, rather than having the trust deed the property to them. This action saves closing costs because nothing changes at the courthouse. The trust still owns the house and you are simply selling the trust. It is done with one sheet of paper called an "Assignment of Beneficial Interest." It's as simple as you signing it, your trustee signing it, and you handing it to the buyer. That's it! Now, of course, your buyer will want to check the title first, and will probably want someone to prepare a closing statement, but all the normal transfer and recording costs have been avoided.

Bank Loans

When you go to a bank to borrow money that is secured by property, the bank will require your personal signature on the note. It will not let you take title in the trust because the bank doesn't understand it. If you have intentions of buying a property and refinancing, don't take title in the name of the trust. The bank will not make a loan to a trust. If you are going to refinance, take title in your name, refinance, and then place the property in a trust. The lender cannot call the loan due as long as you are the controlling interest in the trust, even if the loan contains a due-on-sale clause. In 1982, the Garn - St. Germain Federal Depository Institution Act made it illegal for a lender to call a loan simply because property has been transferred into a trust. If you experience a problem with a lender because of this point, write to me at my office, and I'll send you a copy of a letter you can mail them. It should stop them in their tracks.

Appointing a Trustee

The trustee must be a person you trust. You could make a family member, friend, or title agent your trustee. The trustee can be someone out of state. But remember, the trustee does the

signing for any transactions of the trust. The trustee can close deals for you when you are not in town because of the trust provisions. But the trustee can sign documents only because you, as beneficiary, give him permission. The beneficiary has all the control. The trustee has no control, except to do what the beneficiary tells him to do. The trustee signs all documents at the direction of the beneficiary.

Of course, a dishonest trustee can illegally sign away a deed to your property. Someone taking the deed should check with the beneficiary and even get something in writing from him that taking the deed is, in fact, in keeping with his wishes.

This has been a brief introduction to a few of the key ideas regarding the use of trusts. To really use trusts effectively, you need to learn much more, but it is too extensive a subject for this one book.

I have thousands of students using land trusts nationwide. That is because trusts are simple to use, cost nothing extra, and provide all the benefits previously discussed. Bearing that in mind, please don't let a so-called expert convince you otherwise. Get the facts from the people who know, instead of constantly reinventing the wheel.

If you buy real estate, you should be using land trusts! It's just that simple.

Avoiding Title Problems

Never, repeat, NEVER buy a property without a thorough title check and title insurance. You need the title insurance, in addition to the thorough title check, because no title check can be declared absolutely perfect and complete. A long list of things can go wrong with a title, such as unrecorded documents and forged signatures. Even the best title company can't know everything.

You must order a title check as soon as you put a property under contract. You can't do anything with a property unless it has a good title. Always ask the title insurance company for a written title insurance commitment as soon as you close a deal. It is also wise to evaluate your title insurance company's

strength and ability to pay out in the event of a title problem. A number of title insurance companies have failed in recent years.

Section VI
Success

Opportunity...often it comes in the form of misfortune, or temporary defeat.

Napoleon Hill

Chapter 15

Selling Houses Fast

Selling Retail

It's easy to buy houses at a good price when you know how to do it. But Quick-Turning a house to a retail buyer takes a little more effort. Remember, you don't receive your profit until the property is sold. Even if you refinance, the financing has to be repaid.

Quite frankly, marketing houses to an owner/occupant who qualifies for a loan is the hardest part of our business and the weakest link. But it's also the most profitable method on a per-house basis. Before we go any further, let me point out again it is not mandatory that you get into the retail business. In fact, you shouldn't, unless you have the funds, have access to them, or become skilled at optioning houses so you don't need funds. If you're weak on these points, perhaps you should stick with wholesaling and/or assumptions.

So how do you market a house and sell it fast? After all, you want your money as soon as possible!

Planning Your Total Sales Strategy

If you're buying low to sell high, you're always looking for customers who can qualify for a loan. A house will have to look nice after repairs to attract this kind of buyer. Give buyers a reason to buy your house. Keep in mind you're not going to live in this house; you're only fixing it up to market it.

You will want to do good-quality, but not expensive, repairs. Resist the temptation to spend a lot of unnecessary money. Adding a little wallpaper, paneling, ceiling fans, and so forth, is all it takes to make the property look nice and livable. Don't cheat on repairs, or you could end up having a house on the market for a long time. At the same time, remember this is only inventory and doesn't require the best available materials or craftsmanship.

The whole repair process doesn't take long. The average house takes from two or three days to two or three weeks to completely rehab, depending on the extent of the work, if you use a contractor who has one or two men working with him. Don't over complicate this process. Keep it simple, straightforward, and fast.

The biggest mistake some of my students make is to do the repairs themselves. In my opinion, this is a gross waste of their time. Do you want to get paid as a handyman or as an investor? The answer is investor! The pay is higher, MUCH HIGHER! While you're spending time trying to save a dollar, you're losing $10 in profits. To make this really simple, let me put it another way: we don't do repairs — we write checks!

These basic things must be done to sell a house:

First, the house must be ready to market. It must be in good repair, and the work must be good quality. Act as though it's a buyer's market, whether it is or not. You're trying to attract a buyer who has good credit, so the house must be a cut above the others on the market. After all, buyers who have good credit have the maximum choice available to them in the marketplace. A failure to get the house ready will cost you dearly in the long run, due to holding costs.

Second, plan the whole process ahead of time. Always know what you're going to do with a property before you buy it. Know the way out before you go in. Don't permit yourself to become overloaded with too many properties to sell at the same time. Take care of the first property before moving on to the next.

Plan with the calendar in mind, as well. For example, December may be the worst time of year to sell a house.

Third, you need to know how, when and where you're going to advertise this property. Know which publications you'll use to place ads, the type of ads you'll run, and, most importantly, how you're going to follow up on the calls that come in because of the ads. You'll need a system to handle these calls as they arrive. Prepare a Buyer's Fact Sheet (see Appendix H) for all the calls you receive. Take advantage of them by collecting information about prospective buyers for future use.

When you become adept at gathering buyer information, you'll soon learn to find houses to suit their needs. When you figure this out, selling becomes a cinch.

Fourth, decide which lender you want to be involved. When you need a new FHA, VA or conventional loan on the house, make sure you know who is going to provide that financing. You need to know the interest rates and closing costs. Have a lender in mind ahead of time for your prospective buyer so the loan process will get under way as soon as you have the house under contract. The buyer will want to know how much his payments will be. You should know all of this even before you put the ad in the newspaper.

Fifth, if you use seller financing, play with the numbers before you get the calls. You need to be fully prepared at the time possible buyers respond, or you will lose many opportunities to make the sale. When they call and ask the questions, you need to know all the answers. You only get one shot at them.

Repair Tips

Preparing a house to market is an area where a lot of investors fail. They don't do the repairs properly. The house needs to be in tip-top shape. But I don't fix them up as though I'm going to live in them!

I work on the exterior first. When a buyer drives up, a nice exterior will make him want to look at the interior. Most landscaping money should be spent on the front of the house. I recommend flowers, wood chips, mulch, or anything else that looks nice. If you don't know how to landscape, you can hire someone to do it correctly and inexpensively. In most cases, you shouldn't spend more than $200 to $300 to make the front of a house look presentable.

I use semigloss paint, in two colors, to make the exterior of the house stand out: light blue and a darker blue trim, or light gray with a darker gray trim. Either is quite attractive. I then accent the front with shutters and a fancy front door in burgundy. I give extra care to the front windows because they affect the entire look of the house.

I don't install expensive cabinets in the kitchen since pressboard cabinets are adequate. Redoing a kitchen completely shouldn't cost more than $1,000 to $1,500. I install a double sink with new faucets, but I don't spend a lot of money on appliances, since they're not needed to sell the house.

If you doubt you can remodel a kitchen for this price, as I suspect you do, I suggest you take a trip to your nearest Home Depot, Builders Supply, or other home repair store. Look around and price a whole kitchen containing a sink-base cabinet, counter top, sink, faucet, trap, and three or four upper cabinets. You'll be shocked to learn the whole works, with really nice cabinets, can be purchased for $700 to $800.

While you're in the store, search for other items that can make a house look nice that don't cost much. You'll discover it's the little things that sell a house. For example, I do whatever I can to keep the house smelling nice, like hanging a cinnamon deodorizer. Small items such as fancy electric plug covers are cheap and make the house look richer. Using wallpaper with borders makes a kitchen and bath stand out. I put ceiling fans in just about every room of a house. They cost only $40 to $50 each and really help make the sale. Total cost for fans usually runs about $200 to $300 installed.

I hang mini-blinds on all the windows for an average cost of about $10.00 per window. If you can't find ready-made mini-

blinds that fit, you can have them made to order. If they cost about $10 a window and you have 20 windows, the cost will be approximately $200. If the house is sitting vacant for two weeks or longer because it doesn't have mini-blinds, and your mortgage payment is $400 a month, $200 is money well spent. I don't put curtains in a house because I have had better results by only adding mini-blinds. Generally, I use a color other than white to give the house more warmth.

Here are some more tips that will make a house sell faster. In the living room, I use bright paneling, but not on every wall. Sometimes it's even more effective to panel half and paper the rest. I use molding in the living room, family room and dining room, but I don't use expensive molding unless I'm dealing with a more expensive house.

I almost always carpet my houses with earth tones or solid colors, and I'm careful to avoid gaudy colors. I seldom spend more than $10 a yard total for carpet, pad and installation, with the carpet alone costing about $6 or $7 a yard.

In the bathroom, I usually redo the bathtub at a cost of about $100 to $300. This cost covers professional bathtub refinishing, which gives a better-than-new look. Using this method, I have found it's rarely necessary to replace the tub, and less expensive, too. When a wall can't be fixed with paper or paint, I just put marolite over it. Marolite is a printed or patterned paneling designed for damp areas such as bathrooms. It's also good behind a range in the kitchen. If the toilet has stains that won't come out, I put denture tablets in it. These clean the toilet very well, especially if you use about six or eight tablets and make sure the water level is above the stain. If the toilet is not salvageable, replacement cost is about $70.

In the bedrooms, I use semigloss on the walls, and I paint the trim a couple of shades darker, again avoiding gaudy colors. I do not have my workmen strip the wood and restain it, since this would be too much work and generally not worth the effort.

Some other important things I do, and others that I don't, are worth mentioning here. For example, I almost always add central heat and air before I market a house. You might not think this is necessary on some houses, especially the cheap

ones, but just remember that I'm the guy who has done this more than 1,000 times. I know beyond a shadow of a doubt that houses with CH&A sell faster than those without it. Just ask yourself which you'd rather buy. Your cost for installing a whole system from scratch on a 1,200-square-foot house should not exceed $2,500 total. This, of course, assumes you hire the right people to do the job.

Before you insist that this can't be done for that price in your area, or that I'm full of hot air, just remember: I've been in cities all over the country, and I have successful students in most of them. Everywhere I go, I'm told this can't be done in the area. So when I hear those words, I simply point the skeptics to a student who has done it recently and let that student do the convincing. I've bought hundreds of CH&A systems and, believe me, it can be done and is done for that price on a regular basis. The trick is to hire a one- or two-man crew, one that has little or no overhead and that specializes in heat and air. Don't call the guys with the big, yellow-page ads.

Another important item most investors overlook is the roof. The tendency is to ignore the roof if it's borderline, and try to find a buyer who will ignore it as well. Forget it! Replace the roof in the beginning and see how much faster the house will sell.

If you ignore these two items just mentioned, roof and CH&A, be prepared for a hard lesson as some investors have learned. I know, I was one of them. Do the repairs the right way, and you will end up with more profit. Incidentally, when you add these two items, you are increasing the value of the house by several thousand dollars. More importantly, you are increasing the saleability.

The Smart Way to Use a REALTOR®

When I'm using a REALTOR® to market my property, I get an "exclusive agency listing." That gives the REALTOR® the right to market the property, and I agree that that REALTOR® is the only one I will hire. However, it also gives me the right to market the property at the same time, without paying the

REALTOR® a fee if I find the buyer. Although a great many brokers will not enter into this type of agreement, you can always find one who will, and who is capable of making the sale. As an alternative, though, you could enter into a regular agreement and just add a buy-out clause. That's a clause that states that, if you find a buyer on your own, you will buy the REALTOR® out of the contract for $500, or any other mutually negotiated amount.

A REALTOR® will want a six-month contract with no contingencies, but you don't have to agree to that! Never give a REALTOR® more than a 90-day agreement. You can always extend the agreement if you feel the sales job has been adequate. If you're concerned the house may not be advertised properly, negotiate a lower commission and place the ads yourself, or pay for the ads your REALTOR® runs. That way, you know the house will stay in front of the public, and your REALTOR® won't have the cost or the risk of the ads.

Selling the House Yourself

As soon as the exterior is finished, I recommend putting up a "FOR SALE" sign. Don't use a sign that looks too professional. A simple "FOR SALE BY OWNER" sign with a phone number will get just as many, if not more, calls than will a fancy, expensive sign. Of course, the sign should be easily visible.

When you send a person to look at a house, it's good practice to fill out a "Telephone Questionnaire for Potential Buyers," also known as the "Buyer's Fact Sheet." In doing this, you are "qualifying the buyer," and the process will separate the tire kickers and the would-be buyers from the real customers who have real cash or credit. A few minutes on the phone will save you a lot of gasoline and time.

If this house is not what they want, you might be able to find a property more suited to them. This is one way to have a buyer before you buy your next property. You know what they're looking for, what size payments they can afford, where they want to live, how much money they have to put down, and whether they can qualify for a loan.

Here's an example of qualifying a possible buyer:

Q. "Do you want to look at the house alone, or would you prefer I meet you there?"

A. "We would like to meet at the house, Ron."

Q. "Let me ask you a question. I have advertised the price for this house in the paper as $50,000, and it's going to require a new loan. Do you feel you can qualify for a new loan?"

A."Probably not."

Q."I'll have to get a little information from you. It looks like this one's not going to work for you, but maybe I can find you another one that will. Do you have a minute to give me some answers to a few questions?"

I didn't need to show him this house because I found out he didn't qualify. I would, at this point, ask him a few questions. If I feel he is capable of buying, I would go find him a house based on what he has told me. It would have to be one that wouldn't require new financing where the financing could be assumed without qualifying — the same type of house I discussed in the chapter on assumptions.

If he is qualified for a loan but doesn't have much down payment he is valuable, but obviously not as valuable to us as someone with a lot of cash. The qualified buyer who has good credit, can qualify for a loan, and who has the down payment can have his pick of any house on the market today. This is the kind of buyer everyone is seeking. When you have a pile of fact sheets on potential buyers for your properties, you will be able to match a house you want to sell for all cash with someone who has the credit, down payment, and desire for that type of house in that particular location.

Running Ads

The first thing to be determined about your ad is where you are going to run it. You can advertise in the leading newspaper, the weeklies, and the neighborhood publications. When running

an ad, be sure to check out the contract rates, which are often substantially lower if you agree to run some sort of ad each week. You can save about 25%.

Of course, the point of running an ad is to get prospective buyers to call about it, or you're not going to sell the house. I recommend avoiding the use of too many abbreviations because things that may seem obvious to you may not be easily understood by your prospects. Do you understand this one?

> **"Westside, 3/2, 2C/G, A/P Large D/R**
> **and F/R, CH/A, $75,000 Call 999-9999"**

In different parts of the country, abbreviations mean different things. You may still be trying to figure out what all that code means, but believe it or not, I've seen ads even more difficult to decipher than this one.

If you wanted a prospect to understand the above ad, it should have been written more along the lines of

> **"Westside, 3/2, A/ground pool, 2 Car Gar,**
> **large dining and family room, Cent. heat**
> **and air $75,000, Owner will help. 555-5555."**

What do I mean by "Owner will help?" That's just a phrase I use to get people to call me instead of calling another guy's ad. When people ask what it means, I simply ask in turn, "What kind of help do you need?"

If they don't have enough down payment, I'll suggest some of the ways I can help them get it, as I'll discuss shortly. If they feel their credit is weak, I'll find out why and see if there is a way I can help them overcome any small problems. I frequently get people approved for loans, where others fail to, because I take the time to assist them with things like writing explanation letters, getting old derogatory items removed from their credit reports, or showing them how to restructure their debt so their debt ratio falls in line.

If I see I can't get them a loan because of poor credit, the next thing I want to know is how much they can put down. Quite often, buyers have several thousand dollars for a down payment. If so, I'll shift them to another deal where I can put them in an assumable, no-qualifying house. If that's not possible, I'll keep their Buyer's Information Sheet on hand until I find a house on which we can deal, then give them a call.

If the monthly payment is too high for them I'll suggest a lower, adjustable-rate loan or help them into a less expensive house. If I'm going to spend the money to run the ad, I certainly want to exhaust all angles before giving up on a good prospect.

Responding to calls

If you've done a good job writing and placing an ad, you'll receive a lot of calls. Don't use an answering machine! About 50% of the people calling will not leave a message on a machine. The next best thing, if you can't answer the phone yourself, is to hire a live answering service. They're not expensive and they make it hard for a caller to hang up.

Get the caller's name, address and phone number, and find out what they're looking for. You can build a buyer's list this way. The point is to get as much information as possible from people who call about a particular house you've advertised.

Even if they don't qualify for what you're currently selling, you can always look for something else that will suit them.

Don't over sell! Just give callers the pertinent information. Answer only the questions they ask. Don't rattle on about the house. You can give them the address, so they can go see the house from the outside, then make an appointment to show them the inside. This is preferred to your going with them on their first visit. (Of course, you will have left the blinds open so anyone looking at the house can see inside.)

When they call back to make an appointment to see the inside of the house, it's time to prequalify them. That conversation may go something like this:

"Hi, Ron, I went by your house the other day. I'd like to take a look at the inside."

"Great, Mr. Buyer. When would you like to do this?"

"9 o'clock, Thursday."

"9 o'clock, Thursday, OK. Can I answer any questions before I meet you out there, Mr. Buyer?"

"No, Ron, we can talk when I meet you."

"Let me ask you this, Mr. Buyer. How did you plan to finance the house, assuming that you like the inside?"

"We were hoping that you could help us out with that, Ron."

"What kind of help do you need?"

"I'll probably need some help with some of the closing costs."

OK. We'll talk about that when we get there. In other words, Mr. Buyer, you are going to want new financing?"

"Right."

"Mr. Buyer, you understand that the property is going to require about $3,000 down. Is that a problem?"

"Just $3,000 flat? No closing costs?"

"Well, closing costs are usually split by the buyer and the seller, Mr. Buyer. Are closing costs going to be a problem for you?"

"I can only come up with $3,000."

"We can work with that."

"Good."

"OK. How's your credit?"

"Well, it's been pretty good for the last couple of years."

"About the only other thing I can think of, Mr. Buyer, that would stop you from getting the loan is if your debt ratio doesn't work out. Do you think you're overloaded with debts?"

"Well, I just bought a car."
"What's your gross income, Mr. Buyer?"

"It depends on if it rains, or not. I can't work all the time. I've got $xxx"
"Are you steadily employed, Mr. Buyer?"

"Yes, if it doesn't rain, I can go out and work."
"Can you prove your income, Mr. Buyer?"

"I'm sort of self-employed right now, Ron."
"Can you prove your income?"

"Well I haven't been employed for over a year."
"Are you saying that you can't prove your income for this year, Mr. Buyer?"

"Well I can for the last couple of years. I was employed by someone else."
"Mr. Buyer, can you give me a profit and loss statement for this year showing that you made some money?"

(silence)

"Have you made any money this year, Mr. Buyer?"
"Thanks, Ron."

If the buyer hangs up at this point, it's a blessing, because I have saved myself a trip. On the other hand, if the caller answers all my questions with a yes, I know that I may have a qualified buyer. I would then be willing to show the property. But if the caller can't prove his income, there is no reason to waste time running out there. The exception would be if I'm selling a no-qualifying assumption deal. In that case, the only thing I need to know is whether he has the money.

The key questions you must ask are:

How's their credit? Is it going to be a problem?

Do they actually have the down payment now? Are the funds in the bank now?

Do they feel they are overloaded with debt? What is their income to debt ratio?

Do they have steady, verifiable income?

The above information must be obtained to prequalify the buyer. You should get answers to those questions after the buyer looks at the outside of the house, by himself, and before he gets to see the inside.

As soon as the lender takes the application, a request for verification of funds will be sent to the buyer's bank to make sure the money is really there. If it's not, the loan will not progress until the money is in the buyer's account. This explains why you should ask the question, "Are the funds in the bank now?"

In some cases, a gift letter can be used. That means the buyer can receive a gift from a relative for the down payment. He or she can't borrow the money for the down payment, but money can be given to him using a gift letter. Lenders allow relatives only to give such money, not sellers. In the case of some bank loans, anyone except the seller can gift the funds.

Call your buyer weekly and check with the lender often. Communicate with him, find out what is happening, and keep on top of the situation. Try to solve problems before they become unsolvable.

Two often-forgotten items must be watched by you. **First**, the buyer will need a prepaid insurance policy for one year in advance at closing. Tell the buyer that when you get the contract.

Second, you as the seller shouldn't forget to obtain the payoff letters on the underlying loans. If you wait until the last minute, the closing could be delayed. Most likely, the deal will not close without the payoff letters, so be sure to remember

them. You as the seller should take control and make sure all the documents needed to close are obtained in a timely manner. Failure to do so will delay both the closing and the day you'll be able to put your profits in your pocket.

Adding Creativity to Action

One of the easiest ways to stand heads above the competition in the house business is to show a little creativity in your marketing. Be different! More people will call about your ad, you'll make more profit, and you'll sell houses faster. Here are some ideas and examples of ways to put more cash in your pocket.

First of all, remember that even if you have a nice house in a nice neighborhood, you still may have trouble selling it. Always have at least two different ways to sell the property, if possible. The number of creative selling techniques is limited only by your imagination. The ones I prefer to use include:

- Split funding the down payment
- Eliminating the down payment altogether through trading
- Seller financing the deal

Let's discuss each of these techniques. Remember, these are not the only ones that work — they are just my favorites. When you have mastered these, you'll be able to sell your houses faster than ever before!

Split Funding the Down Payment

Making the down payment smaller for the buyer can be accomplished in several ways. One of the simplest is to split it into two or more parts. Think of it as taking the down payment in installments. For example, if you want a $5,000 down payment and the buyer has only $2,000, put the buyer in the house and let him pay you $500 a month extra, in addition to the regular payments, until the down payment is paid. Anything you and the buyer can agree on will work. It depends on the indi-

vidual situation. Of course, the downside to this method is that it could take months for the sale to go through, while you wait for your buyer to raise the money. This method works only if you can wait.

Eliminating the Down Payment

Eliminating the need for a cash down payment altogether is the next basic method to use when selling your property. How do you do this and still make money? Trade! In essence, you look for something you value more than someone else does, and take it for the down payment. If you're willing to take something on trade, put this in your ad:

"I will take anything on trade for down payment. Car, truck, motor home, mobile home, horses, stock, etc."

You can also receive other real estate in exchange for the down payment. Don't lose sight of the fact that you won't have a house that fits every caller's needs. So what do you do with the potential good buyers who, for one reason or another, can't or won't buy one of your houses? Make money, of course!

Fill out a fact sheet about them and contact other investors to see if they have anything. If they do, give the investor the person's name and fact sheet in exchange for a previously negotiated fee, payable if the deal closes. Shared listings of potential buyers are mutually profitable. However, if you find a good qualified buyer with good credit, cash, or both, I suggest you get busy and find them a house. Buyers are harder to find than good deals on houses. Don't waste them!

Seller Financing the Deal

The next technique is really a whole set of methods that make it easier for the buyer to buy, yet keep the deal profitable for you. That technique is seller financing.

Seller financing has three advantages when used to market your property.

First, it gets the attention of the buyer and sets your house apart from other properties in the marketplace.

Second, it makes it easier for the purchaser to buy your house.

Third, it's highly profitable! Over the life of a loan, you often can double or triple the profit you would otherwise make. The following is just a brief introduction into selling with seller financing.

Finance Companies, Your Ace in the Hole

Any property you own can be owner financed, but your objective should be to get your cash back, not leave it buried in the property. A buyer may not be able to qualify for a loan for the full purchase price. Nevertheless, you can hold a second mortgage and get the buyer a loan for 50%, 60% or 75% LTV from a finance company.

There are finance companies in every major city who will make these lower LTV loans to buyers who simply can't qualify for bank loans or government financing. You'll be shocked at the bad credit some of them will accept. I suggest that you hit the bricks and talk to five or six finance companies, such as Beneficial Finance or ITT, to learn their loan requirements.

It will make your sales job much easier if you buy the property correctly to begin with, so you don't have to cash out at 100% of the sale price to make a profit. The goal is to get whatever cash down payment you can, get the buyer a loan for a percentage of the sale price, and take back a second mortgage. You can keep the second or sell it for quick cash, if you can find a buyer. This could be a better deal for some sellers than all cash. I personally prefer to have all my investment, and then some, out of the property when I do this, so all my paper profit is free.

The downside to using finance companies is that the rates are high, so the payments are high as well. Therefore, this will work only on lower-cost houses — those priced under $60,000. A 75% LTV loan on a $60,000 house is $45,000. Amortized over 15 years at 13%, the payment would be $569 per month, plus whatever you and the buyer can agree on about the second-

mortgage payment you are carrying back. Even though this is still a tolerable payment to a semi-qualified buyer, it is high. It's obvious that the higher the price, the higher the mortgage, but it's still a method worth exploring for several reasons:

1. These loans require minimal qualifying.
2. You get an answer in about 48 hours.
3. These loans usually close in two weeks or less.
4. They have low closing costs and little lender scrutiny.
5. The lender requires little or no down payment.

Trading the Paper

At some point, you're going to wonder what can be done with all those small second mortgages. You can use them to trade for other property. So you find a seller who will take several second mortgages you own for his equity, instead of giving him back a mortgage on the house you're buying. You can buy a property free and clear if you have enough second mortgages to use for trade. The person from whom you are buying the house will take four, five, six or more of these little second mortgages in exchange for his property. Then, he collects the payments from all of them.

Or, if you want to do something really dumb, you can trade them for toys, as I once did. I swapped $30,000 worth of seconds for a free-and-clear motor home worth $30,000. I had run an ad in the paper stating I would trade some real estate for such a vehicle. A man called to say he had a motor home, and wanted to know what I had. After some conversation, I discovered what he really wanted was cash flow, not real estate, so I got the idea to trade five little second mortgages I owned.

My total incoming payments were $450 per month. His motor home was just sitting around, not being used, because his wife didn't want to leave town. We made the swap, and now I'm out $450 per month income and I have a motor home sitting around not being used! Maybe one day, if I keep begging, my wife will let me sell or trade it for something useful before it becomes worthless.

Selling on a Wrap

Another highly effective method I've used to finance properties is the wraparound mortgage. A wraparound is a single mortgage, created by a seller, that wraps around all the underlying mortgages.

For example, if you make a $50,000 sale and take $5,000 as the down payment, and there happens to be an existing $20,000 first mortgage and a $10,000 second mortgage, you can take back a $45,000 mortgage wrapped around the two underlying loans.

The buyer pays you $450 a month on the $45,000, and you pay $300 a month on your underlying payments. You get $150 per month cash flow and a $15,000 equity position in the note. You can then sell the paper for cash, but if you intend to sell wraparound mortgages, you have to become skilled at knowing the price for which you can sell them.

The process isn't complicated. The objective is to create the wraparound mortgage and sell it at a discount, if that's what you want to do. By doing that, you can make the house quite saleable, because the buyer doesn't have to qualify at the bank. In selling the wraparound mortgage, however, be aware that anytime you convert a note to cash, you will suffer a sharp discount because of the time value of money. Cash received in the future is worth far less than cash received today. The further away the due date, the bigger the discount.

The discount is calculated based on the monthly payment you are receiving, the number of payments still to be paid, the LTV ratio, and the buyer's credit. The higher the monthly payments being received for the mortgage, the less the discount you will take. It's just that simple.

However, if you have a buyer whose credit is very bad, you may not be able to sell the mortgage until it ages several years. Your buyer doesn't have to be perfect, but a real bum will make it difficult to convert your note to cash.

You don't have to sell off the whole mortgage. People who buy mortgages are looking for a cash flow that can be bought at

a discount rate. The more quickly they get their money back, the more that cash flow is worth.

Don't worry about a due-on-sale clause on the underlying financing if you intend to sell off the wrap. If you are selling a wraparound mortgage to a traditional mortgage buyer, all the underlying mortgages are going to be paid off before you get paid. The note buyer will simply calculate the amount he or she would pay for the mortgage or trust deed as if it were a first mortgage and there were no underlying liens. When the funds are disbursed, all liens will be paid off, and you will get what remains, so the note buyer will then have a first mortgage or trust deed.

Here's an example: Suppose you are selling a house for $50,000. It's carrying a $20,000 loan with a due-on-sale clause, and it has a balloon payment due in three months. If you know you are going to sell this paper, you don't care about the clauses, because all the underlying loans are paid off as soon as the mortgage is sold. You can wrap it, knowing it is going to be paid off. You had better understand this type of deal well enough, however, to be absolutely sure the underlying loans are going to be paid off.

You should even go so far as to pre-approve that mortgage sale before you close the deal. Get an application, send it to a mortgage buyer with the terms of the note, and let him tell you what he will pay for it before you ever close.

Selling With Nothing Down

If you are feeling really generous and want to sell zero down, be prepared for your phone to ring off the hook! Just be sure to obtain additional collateral. Hold the title to something the buyer owns until some sort of down payment is received. On a zero-down deal, always make sure the buyer will lose something of value if he doesn't live up to the agreement. Additional collateral could come in several forms, but it is usually a mortgage on another property in addition to the one you're selling. That way, if the buyer defaults, both properties are at risk. Of

course, a lien could also be against non-realty things like cars, boats, mobile homes, or motor homes.

Adding "Boot," the Gravy on the Deal

Another advantage of seller financing your property involves selling other personal property. For example, suppose you have a boat you'd like to sell. (From my experience, if you have a boat, you probably DO want to get rid of it.) You can add the value of the boat to that of the house and finance it with the purchase.

Personal Guarantees For Seller Carryback

I strongly urge you to obtain a personal guarantee on all seller carryback notes when you sell. This puts you in a position, in most states, to come after the seller personally to collect the debt. That means you can sue on the note and not foreclose the mortgage, if you wish. Everything the buyer owns is at risk until your debt is paid.

When you get a judgment on such a note, you can attach everything belonging to the buyer. If it is not enough to cover the debt, you still can foreclose on the mortgage and sell the property. Can you see why a personal guarantee is a powerful motivator for your buyer to pay you? And do you understand why you should not guarantee notes personally, if at all possible?

The ideas expressed in this chapter on how to market your houses are just the beginning. Be creative. Get expert advice, so you are always safe, but do have some fun trying different ideas. As I said above, the creative selling techniques available to you are limited only by your imagination.

They say art is a good investment. Learning the fine art of creatively selling your houses will put more real cash in your pocket than you can imagine!

Selling Wholesale

This is the easiest part of marketing houses. Everyone's looking for a bargain, so if you have the knowledge to find those bargains, you are very much in demand. Your objective is simply to locate and tie up a good deal, then quickly sell it to one of two kinds of buyers. Some are investors who like to make a Quick-Turn profit or acquire rentals. Others will be owner/occupants simply hunting a fixer-upper they can buy cheaply to repair and live in.

Let's see if we can't figure out some ways to attract these bargain hunters. First, I'll assume you have located a good deal on a junker, and the seller has given you a signed purchase and sale agreement. Now you're faced with the task of either raising the money yourself to buy it, or selling it before you have to close the purchase. Let's say you found a HUD repo worth $50,000, after repairs, that needs about $7,000 in work. Your offer of $17,000 cash was accepted. The problem is you don't have $17,000 in cash. You decide you want to wholesale the house for $20,000 and let someone else worry about it. All you want is your $3,000 profit and a clean break. You don't want to bother with fixing the house or finding a qualified buyer. Once you have a signed contract to purchase, you have the right to begin the sale. So you run an ad in the paper that says:

"Handyman special, cheap, cash, 999-9999."

This ad doesn't look like much, but it will produce calls from all kinds of buyers, investors, and owner/occupants. The trick is to make full use of all the calls that come in. Most people would ramble on and try to convince the caller this is a really great deal. Then they would ask the caller to go see the house. That's where it would end, unless the caller called back and showed interest.

But since we paid for the ad, we're going to make the best use of it and build ourselves a buyer's list. This list will contain the name, phone number, and qualifying data about every caller. It will be a record of what they want, where they want it,

whether they have cash, and whether they are an investor or occupant. It will have other pertinent information, as well.

My friend, this list could be your most valuable asset. It will be your lifeblood and source of ready money. It will soon become your customer list. It's just as important to you as a doctor's list of patients or an insurance agent's list of clients.

But once you build this list, which will take all of a few days to do, then you will develop a new problem: finding enough deals to supply all the buyers!

That's right. Soon you will be able to spend your time looking for good deals to wholesale instead of looking for buyers, because you'll have more demand than you can supply. All from running an ad to attract the right people, and then collecting that information instead of wasting it.

Soon you will be experiencing the pleasure of taking a call from a prospective long-term customer, rather than from a short-term, one-time buyer. A slight change in your attitude about those incoming calls could mean the difference between a mediocre existence and the creation of more income than you can spend.

Let's assume you find only three deals a month as a full-time investor. Once you learn the ropes, this should mean you're making about 20 to 30 offers a month. If you're not getting those results, you're not doing the right things. The truth is I usually have a higher success ratio than that, but I'll allow you some time to get up to speed.

Let's also assume you wholesale all three deals and make only $5,000 per house. Now, the way I figure it, that's $15,000 a month without ever buying a house, doing repairs, borrowing money, qualifying buyers, making payments, or dealing with tenants.

You paid no franchise fee, took no risks, worked short hours, and had no employees. The best part is that you can begin immediately and start to profit soon after.

All of a sudden your buyer's list becomes a very important part of your life, doesn't it? Of course, this is assuming you take the time and spend the money necessary to get the proper training to make it all possible. But as my students across America

have proven, success will come if you make the right offers on the right houses, then handle your deals the right way.

Assumptions

Dealing in assumptions is a different world than wholesaling houses. In fact, it's on the opposite end of the spectrum. Instead of buying junkers at low wholesale prices, you're looking for nice houses in good, upscale areas. In addition, your buyer's market is owner/occupants only.

To refresh your memory, your objective is to finance a property and pass it along to your buyer without dealing with banks. Your profit will come from the difference between the amount you can collect as a down payment from your buyer and the amount of down payment you have to make to your seller.

What makes these houses easy to market is the buyer doesn't need good credit to qualify. If he or she has enough down payment to suit you, the buyer is qualified. Such buyers tend to be much less picky than qualified buyers, and they're much easier to work with. If you provide them with a nice house, in a nice area, with a reasonable down and monthly payments, you should have an easy sale. In fact, these houses are usually sold before I find them.

This is where I make good use of my buyer's list of people who have several thousand in cash, but who don't qualify for a traditional loan.

It's just a matter of showing the house to everyone on the list until one of them says yes. The process begins just as soon as I get a house under contract. So, by the time I am forced to close on my purchase, I have a buyer lined up, ready to buy. Most of the time, I'll simply have my seller deed directly to my buyer and leave with a check for the difference. This happens frequently when I've assumed an existing, no-qualifying loan that constitutes most of my purchase price, and the seller is getting very little or no cash.

If I'm creating a no-qualifying loan by giving the seller back a mortgage or trust deed, I'll almost always have to close first and then resell, even if only a few minutes later.

Remember, a no-qualifying loan is simply one that does not have a due-on-sale clause that would allow the lender to call the loan due on transfer. Don't forget that I'm taking title in a land trust and having the trust either assume the existing, no-qualifying loan or create the seller carryback note. I'll never become personally liable, and neither should you. If you choose to ignore this suggestion, you are likely to be headed for a very expensive seminar.

Now that we know what we're trying to accomplish, let's discuss how to find these buyers. Actually, it's quite easy. Just run an ad something like this: **"Northside, 3/2, No Qualifying, Low Down, $693 mo, 999-9999."** This little ad should produce tons of calls because of the words "no qualifying" and "low down."

If you create a buyer's list in the way we've previously discussed, you'll soon have a stack of good prospects. When potential buyers call and you have captured the information you want, then give them the address and let them look at the property from the outside. Ask them to call you back and let you know if they like the house so you can make an appointment to show them the inside. Of course, if the house is vacant, leave the shades open so they can look inside. Tell them it's OK to do just that.

When a potential customer, one who has seen the exterior and looked inside, calls you back, chances are excellent he is a genuine buyer. Now's the time to make an appointment to meet him, and his checkbook, and get a written contract signed and an earnest money deposit.

Remember, both the husband and wife must be present when you show the house. You can ask in plain terms:

"Will your wife be present when we meet?"
"No. She can't make it then."

"Let's reschedule a time when you both can be present."
"I don't see why she needs to be there, she always goes along with whatever I say anyway."

"I understand, but in order for me to take the house off the market if you like it, I'll need an OK from both of you. Is that going to present a problem?"

"No, I guess not."

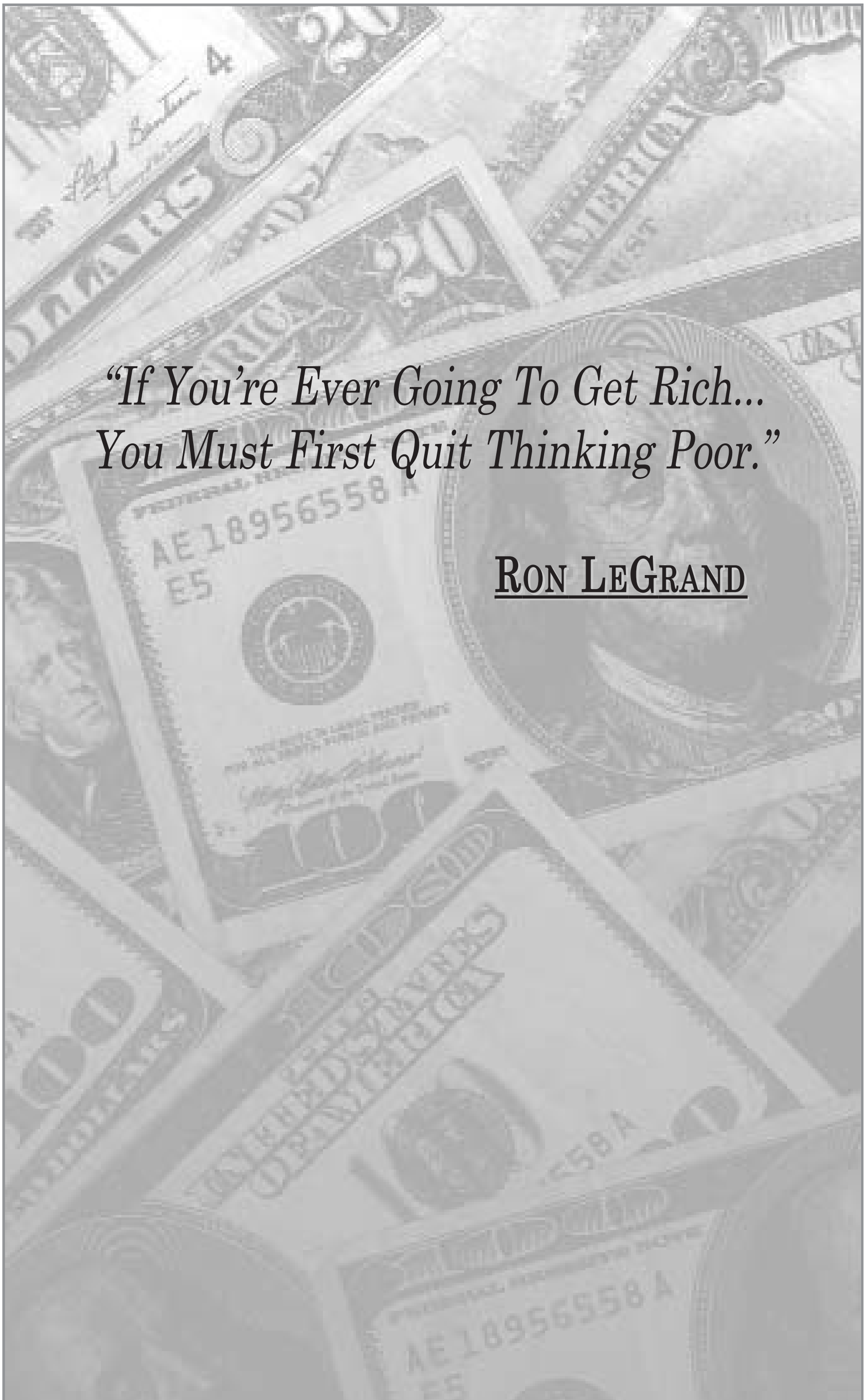
"Good, I'll see you both there at 5:00 p.m. By the way, be sure to bring your checkbook. I'll need a deposit if this is the house you want."

"I don't know for sure I want the house yet."

"I understand. But if it is the one you want, I'll need a deposit to insure you get it, and I don't want to see you have to make another trip. I've had a lot of interest in the house, and the first person with a deposit wins. I'm only suggesting you come prepared."

When you have a nice house in a nice area and can offer great financing, you don't have to beg people to buy. These kinds of houses don't hang around long. There are too many people ready, willing and able to pounce on them as soon as they become available.

There are many variations of the assumption technique, such as selling on a wraparound mortgage and creating monthly cash flow, or selling as handyman specials with good financing. Instead of complicating the issue any more, I'll leave it at that and let you learn the basics first.



"If You're Ever Going To Get Rich...
You Must First Quit Thinking Poor."

RON LEGRAND

Man's mind, once stretched by a new idea,
never regains its original dimensions.

Oliver Wendell Holmes

Chapter 16

Profiles of Success

PHIL BARNES

Phil Barnes was a successful major appliance salesman with one of the most prominent retailers in the country for over 23 years. At 55, he felt he had a secure future: a great job, a good living from his first-rate performance in sales volume, and a reliable plan for retirement. Little did he know, all that was about to change.

Rumors began to float along the corporate grapevine that the company was offering top-level management buyouts and planning a major company-wide re-organization. But employees with Phil's tenure and performance record didn't give them much thought. However, over time, the rumors persisted and intensified. Phil began to feel the need to hedge his bets, to diversify his investment activities. His choice? Real estate.

"I'd never even thought about being involved in real estate. I'd made such good money, the thought never crossed my mind," Phil explains. "But with the rumors of impending change, I felt prompted to give it a try." Phil took what most people thought was the solid way to make money in real estate – he bought a few properties and became a landlord.

"I listened to some tapes from different supposed "gurus" I had heard on television," he recalls. "My perception at the time was that real estate investing was buying a piece of property at 20% down, getting a loan from the bank, putting a tenant in there and hoping you wouldn't have any problems. I believed

that's where my income would come from."

But, for Phil, there were problems. "A roof would need replacement, a furnace would blow, and there would go all my profits," Phil recalls. "And I couldn't understand why I wasn't making money! After a few of those, I found out fairly quickly that this was definitely not the way to make money. I had a lot of equity, but I was cash poor. I figured there had to be a better way."

This is when Phil began to look for more information about real estate investing. He became involved in the local Real Estate Investors Association (REIA), a fledgling chapter with only 20 members. "Basically, it was a landlord's gripe group at that time. We were all in the same boat with the same problems. For the most part, the members sat around bemoaning the tax law changes and all the reasons we couldn't get ahead. And nobody wanted to run it, including me. By default, they chose me as president."

Over the next year, Phil's leadership of the local chapter and state chapter involvement paid off in more ways than one. The local chapter's ranks grew to 125 paid members. And through his various activities with the state chapter, he discovered the methods of Ron LeGrand.

"Several of the young investors in the state chapter had heard about some of the hot national-level speakers," Phil recalls. "After investigating several of these speakers, they met Ron. They were so impressed, we arranged for him to come and do a presentation at our state meeting." Phil met Ron at that convention and arranged to have him come speak at an evening meeting of the local chapter. "I was so motivated by what he had to say," Phil explains. "It had that ring of credibility and sincerity that no other real estate investor speaker I had ever heard had."

In the meantime, those rumblings on the corporate grapevine seemed more like prophesy than rumor when company representatives approached Phil and his colleagues with a wage reduction proposal. "It was the beginning of the end as far as I was concerned," Phil states. "They told us that if our earnings were affected negatively by more than 10%, they would offer to

buy us out. My salary would have been cut by almost 25%, plus they would have locked in my retirement at that reduced figure, which I thought was ridiculous. So, I decided to take the buy out. It was quite a leap of faith for me."

As a consequence of Ron's earlier visit to the local REIA chapter, Phil arranged to have Ron come back and present a four-day Boot Camp. "The timing was perfect," Phil laughs. "The Boot Camp was scheduled to take place just a couple of months after I took the plunge to be on my own. It couldn't have been better for me."

In addition to great timing, it was a time of great revelation for Phil. "The Boot Camp changed my entire concept of the business," Phil remembers. "Ron taught me how to get my profit up front and forget hoping to get it at the back end. I realized that doing it Ron's way, you can get control of property without ownership, flip it, make your profit, and let somebody else fix the roof!"

This was exactly the kick-start that Phil needed. "Three weeks after Boot Camp, I went back by a For Sale By Owner house we had gotten some information on during the class, but had never talked to anyone about," Phil explains. "I orchestrated a deal with the owner and bought it for $27,000. I put about $5,000 into it to fix it up and sold it for $48,000. So, I made about $18,000 profit on my first deal only three weeks out of Boot Camp. You could say I was very encouraged!"

That deal led to many others. "The worst deal I've ever done still made me money," Phil laughs. "What more can I say than that? Honestly, there have been some deals where I could have made a bit more money, but one of the biggest satisfactions of this work is helping people out. If I can really make a difference and help someone by just sacrificing a little on my end, and still make a nice profit, that means a lot to me. It's one of the reasons I love doing this business."

Phil has taken every Boot Camp offered by Ron. "Ron arms you with all the ammunition you need. And there are so many different aspects to it. I just constantly opened up to different things Ron presented and it's really been good for me. I figured it this way, why re-invent the wheel? Why not take it from

somebody who's been there?"

Phil cites several reasons why he thinks Ron's courses are superior to others in the marketplace. "These other guys will tell you you're going to make lots of money, and they give you tons of information. What they don't do is tell you the "how" part of it. What sets Ron LeGrand apart from others is the fact that his information is precise, right to the point, and accurate," he says. "Ron provides a step-by-step system that's understandable and complete. He gives you a lot of information with which you can make money, but just getting the information won't make you any money. Ron provides plenty of follow-up to make sure you know how to take action to implement what you've learned. He's very sincere in wanting you to succeed."

A man with a strong belief in God, Phil is very clear about his values and priorities: God first, family second, then work. "Conservatively speaking, I make at least three times as much money now in half the time as I did working as a salesman," Phil confides. "It would be very easy to get extremely greedy doing this business. I've seen some do that. They just can't believe what they're able to accomplish, and they get obsessed about the amount of money they can make. But I think the key to real fulfillment is balance in all things."

Phil firmly believes that a key to success in this business is taking the time to figure out what others want and need. "This business does not mean that one person profits and the other person has to lose," he explains. "Business is contribution and productivity. It's the process of providing goods and services to people. It's helping people. It's fulfilling needs. If you can figure out what people really want, you'll be rewarded. Show the other guy how he can win, and we both will win."

Another source of satisfaction for Phil is that he is now able to give so much more money and time to others. Recently, Phil took off three weeks, traveled to Haiti and assisted in building a mission church there. "The freedom available by doing this business is wonderful," Phil says. "Now I do whatever things I like when I like without having to always worry about fitting in with someone else's schedule, except my wife's, of course."

Phil feels it's never too late for someone to make the transition to this business. "I was into my fifties and I had never seriously considered the notion that I would be anything other than what I was," explains Phil. "I figured I would continue at my job until I retired. My only regret at this point is that I didn't know to do this business sooner."

Elizabeth Bowers

Elizabeth Bowers is now in the driver's seat of the car she's dreamed of owning for years – a pearl-white Lexus 400 SL. And she's quick to tell anyone who asks who helped her make her dream come true.

A woman accustomed to working in what, until recently, has been considered primarily a man's domain, Elizabeth had been working as a real estate investor and landlord for 12 years accumulating over 100 rental properties in her Ohio hometown. Then, she explains, something happened that changed her life forever.

"I met Ron LeGrand and listened to him present information on his approach to real estate investing. Suddenly, I realized I had been doing the business all wrong for all those years," Elizabeth recalls. "Ron told me he knew what I was up against. He had a lot of empathy for me. He assured me he was going to help me 'catch up' and show me how to get my business into the '90's.' Since then, my business and my life have gone from what I describe as inefficient to totally efficient. I give Ron a lot of the credit."

Acquiring all her previous real estate knowledge and training from whom she terms "the gurus of the 1980's," Elizabeth spent years in the basements of houses, wearing jeans and overalls and working along side contractors to rehabilitate properties to resell. She laughs heartily when she recalls Ron telling her to get out of the basement.

"Ron taught me how to get out of the dungarees, wear a dress and be professional," she laughs.

Although glad to be out of basements, that working experience has come in very handy. "There's not a contractor alive who can pull one over on me," she explains. "Working in those basements gave me an eagle eye when it comes to estimating repair work, knowing what needs to be done and knowing when it's done correctly."

In addition to pitching in on many "rehab" projects, Elizabeth spent the majority of her time back then as many landlords do – collecting rents, tracking down late payments, fielding complaints and maintaining her properties.

"My property portfolio covered the whole spectrum," she points out. "From the cream of the crop to those in less desirable areas, I had them all."

After attending the Wholesale/Retail Boot Camp in Chicago in 1993, Elizabeth worked diligently over the next year to perfect Ron's craft and became what she terms "very good" at retailing houses. "Ron's information is presented in such a no-nonsense, straightforward way that it's easy to understand, easy to follow and easy to use. Anyone can become good at what he teaches you to do," she explains. When describing the track record of success she experienced just after attending her first Boot Camp, Elizabeth describes it as "surreal...almost spooky." To elaborate she said, "Success happened immediately. It happened so quickly it was magical!"

During this same year, Elizabeth began acting on Ron's advice to trim a significant portion of her rental properties from her portfolio. "And that's exactly what I did," she says. "I took all 100 properties that I owned, analyzed them by property condition and rated them on an 'A to F' grading system. Then, after getting rid of my 'D' and 'F' properties, I re-analyzed all the remaining properties based on mortgage pay-offs. If the property wasn't going to be paid off by the year 2000, I sold it. This left me with only 'A', 'B' or 'C' condition properties which could be paid off before or by the year 2000. This process eliminated all the stress I had experienced owning those lower-quality houses and allowed me to work more efficiently, freeing me up to pursue real estate as a true entrepreneur."

That process, in and of itself, was eye-opening for Elizabeth.

What she thought was going to be the foundation of her retirement was really the source of stress and worry. "The 'D' and 'F' grade properties were actually a sieve; a virtual money drain. All the money I was making was going right back out the back door into those rentals. So I had to get rid of those money drains, which were also stealing my energy. Once I got rid of them, I was really in a position to benefit from what Ron had taught me."

Although focused on retailing during the early phase of putting her new-found knowledge into practice, Elizabeth realized that the market in her part of the state was shifting. To remain successful, she realized that she needed to shift her focus. And she did.

"Another great thing about Ron and his courses is that he is an expert in a number of different arenas – retailing, wholesaling, lease/option, for sale by owner, mortgage brokering and others," she points out. "As my market shifted, I could shift with it because, first, I was armed with the information I needed to recognize that it was changing and, secondly, I was equipped to change my focus with it." Now she concentrates on wholesaling lower-end properties to bargain buyers.

Whether retailing or wholesaling, Elizabeth has become very successful at this business by concentrating on deals that consistently make a profit in the $10,000 range. "Repetition is definitely the key to success," she emphasizes. "The printed materials are so well written and so clear, and the information on tape and in the courses so well presented, you just need to focus and do what Ron tells you to do – then do it again and again and again."

When giving advice to others who might be contemplating real estate investment as a business, Elizabeth speaks with conviction, "Attend Ron's Boot Camps! And while you're there, focus!" She also advises to never let your materials get too far out of reach. "Don't ignore the tools that Ron gives you. The written material answers everything. I'm constantly reviewing the information, refreshing my knowledge and learning something new every time I do. It's invaluable!"

Elizabeth points out that her biggest obstacle has been to

overcome the tendency to try and re-invent the wheel. “Something in our human nature just urges us to try and improve on something, I’m no exception,” she laughs. “But there is no need to do that. And trying to do that just causes problems. He’s already been there and done that so you don’t have to! If you can just remember that, you’re fine!”

Life is very different now for Elizabeth. “I used to wake up and dread every day. Listening to constant complaints from tenants, never-ending maintenance worries on lower-end properties and collecting late rents were all part of what I thought I had to do to be in the real estate business. Since being introduced to Ron’s method of real estate, my life has changed. Now, I love my work and I wake up every morning asking myself ‘What can I make happen today?’”

Elizabeth is fulfilling all the goals that she ever imagined she could reach through real estate investment – in less than five years she will have no real estate debt, she’s making a lot of money, her retirement is already set, and she loves what she does. “I’m solving people’s problems and helping them out and that’s very fulfilling to me. It makes me happy. I believe happiness is more important than money. And loving what you do is just as important. Now, I have both.”

Another reason Elizabeth loves this business is the time it affords her to travel. “I’ve never been one to yearn for leisure time; however, I do love to travel. I used to travel to try to get away from everything. I would worry the whole time about what was going wrong with those properties. Now, doing the business Ron’s way, I travel because I can. And when I go, I actually relax and have fun! I can now honestly say I’m enjoying the journey.”

Mark Cousino

Well into his second successful year as a real estate entrepreneur, Mark Cousino points to three primary things that make this business so fulfilling for him: creating win-win situations, being a master of his own time, and achieving a secure foundation for the future.

Mark had always possessed an entrepreneurial spirit and a desire to obtain an income level and quality of life for himself and his family. He tried his hand in two or three businesses including vending, food concession and computer portraits. "One of the reasons I wanted to work on my own was to be able to take control of my time," explains Mark. "Through my experience I found out that a business can easily take control of you! And there's so much more to life than being obsessed and possessed by your work."

Tired of jobs that controlled his time, earning potential and activities, Mark eventually became "sick and tired of being sick and tired." But that experience can be a very powerful motivating force. He kept searching. Consequently, he found and fell in love with real estate.

"I really didn't know anything about real estate except what I had read in a couple of books," says Mark. "I was sure I could do this on my own through trial and error and the school of hard knocks. I started with a single family home which I bought with bank financing and 25% of my own money. I had no idea at that time about no money down strategies. Even though it was in a rough neighborhood and I got into it heavily with my own cash, I still made a profit from it."

Even though Mark was, as he calls it, "just poking at it with a stick," he could see there was a good deal of potential in real estate. But he felt there must be a way to make the kind of money he wanted without so many headaches and hassles and without so much of his money invested. He began to attend a few Real Estate Investor Association (REIA) meetings and a whole new world opened up.

"I wanted to learn something really different about how this business could work. At REIA, I began to hear of methods of acquiring real estate that eliminated the normal headaches associated with buying, holding, renting and so forth, which is what I had been doing up to that point," explains Mark. "Then I heard of Ron LeGrand at one of these REIA functions. He was offering free subscriptions to his "Quick-Turn" newsletter, so I put my name on the list to receive it."

The information presented by Ron in the newsletter was

enough to convince Mark to attend a Real Estate and Entrepreneurs' SuperConference in Orlando, Florida where Ron LeGrand would be a featured speaker. "I heard a number of speakers, each with a specialty. They were experienced, and it was obvious these people had involved themselves directly in the business. They were pros, not just educators," Mark points out. "The conference was a big motivator. To hear some of the newer, cutting edge techniques and strategies that allow you to take control of property without ownership was awesome for me."

After putting quite a bit of money into doing it his own way, Mark was ready to make the necessary adjustments. In December of that year, he proceeded with plans to attend his first Boot Camp. "Ron LeGrand opened my eyes to a whole new world of real estate," says Mark. "I just knew it was going to work. Ron makes it so simple and shows you step-by- step how to produce the results you want. I couldn't compare it to the way I was doing business before."

After the conference, Mark jumped right in. "I got to work right away using the exact ads Ron had shown us in Boot Camp. I created quite a bit of chaos for myself. But I knew I wasn't really going to really learn it until I got in there and did it," he points out. "I got calls immediately. I knew it was going to work. It only took me one deal to know it could be easily duplicated. Ron makes it very simple to follow."

In fact, over the next three months, he had so many successful deals, it dawned on him that this business was really taking off. "I didn't have time to do my old business," Mark explains. "It didn't make sense to continue doing something I had been doing for quite some time that wasn't producing the things I really wanted from work."

The timing was just right. Mark made the decision to sell his seasonal business just before the opening of the 1995 season to pursue real estate full-time. "I couldn't go back to what I was doing. The profit I was realizing from doing real estate on a part-time basis was already far exceeding what I could make from my old business," he explains. "Just like Indiana Jones, it was a step of faith."

In addition to SuperConferences, retreats and seminars, Mark has attended both the MLS and Lease Option Boot Camps. He's gained valuable perspective from both, but prefers to spend most of his time orchestrating lease/option deals.

"I prefer working with the homes that need little or no work to be marketable," he points out. "And my favorite aspect is that I provide a service to people who want to own a home, but might not be able to do it the traditional way because of a credit problem. I love the process of educating them, to convince them what everybody else has told them is wrong and that we can get them in a home. It's an unbeatable feeling, and I generate a great monthly cash flow for myself. What could be better?"

"I didn't have a clue as to what I was doing before Ron," Mark says. "And those other guys that are out there in the market who say they can show you how to make money in real estate sure couldn't show me anything that was workable. Ron's 'been there, done that' – really been out there in the trenches doing this business – and he's a great teacher. He's designed a wonderful education for people. But once you've got it, you've got to get out there and do it."

Mark has no sympathy for people who attend Boot Camps and conferences over and over again, but still haven't gotten started with the business. "Ron gives you everything you need to know. If you've studied the courses and gone to the Boot Camp, you're already prepared. What Ron teaches you is enough to go out and flat kill it! You just have to get rid of any 'stinkin' thinkin.' To use a phrase Ron coined, get over your 'analysis paralysis' and do it!"

Mark is able to produce remarkable results from real estate by working 20 to 25 hours a week, leaving plenty of time for those things he enjoys most: his wife and two small children, hunting, fishing, golf, working out and spending time with friends. "Few dads have the opportunity I do. I'm the only dad that gets to take his kid to pre-school and the only one there for T-ball practice and swimming lessons," he points out. "There are more important things than slaving at work. Being a master of my own time is one of the reasons I love this."

Another reason is what he is able to do for his family. “We’ve always wanted to build our dream house,” Mark says. “Profits from this business have allowed us to go ahead and purchase a beautiful 11-acre piece of property for this purpose. Within the next year, construction will be underway. Now I know the kids’ college education is taken care of. We’re putting money aside for the future, and we definitely don’t worry anymore about how next month’s bills will be paid!” he adds.

“When I consider some of the things I’ve accomplished as a result of the information Ron LeGrand has taught me and shared with me, I can’t believe it’s really happening for me,” shares Mark. “It doesn’t take a high degree of education. It just takes a willingness to learn. After putting an awful lot of my money into doing it my way, I discovered there was a better way – and Ron’s programs showed me how.”

Randy and Charlene France

When Randy and Charlene were married just a few years ago, they had five children between them, were setting up their new household in a 3-bedroom apartment, and borrowed a car from friends to go on their honeymoon.

“Everything used to be a big deal,” Charlene remembers. “Grocery shopping or needing to buy shoes for the kids. If the kids needed shoes, then taking them to Burger King was definitely out.”

Have things ever changed for the France family over the last few years!

“We’ve gone from zero to a six-figure income, from a basement apartment to a $125,000 home being paid off in three years, from borrowing a car in order to have a honeymoon to two brand-new vehicles in the driveway paid off in full,” Charlene points out. “We can go anywhere we want. We’ve traveled more this year than we have in our whole lives. And it’s because of the business, because of what we’ve learned from Ron LeGrand.”

The Frances first became involved in real estate by investing

in rental properties with a family member. Having heard the concept of quick-turn real estate from various sources, they even tried flipping a couple of houses.

"When we met Ron, we had done a couple of quick-turn deals," explains Charlene. "But we really didn't know what we were doing."

Then a friend invited Randy and Charlene to a Financial Freedom seminar where Ron LeGrand was speaking. "I felt like I was looking at a road map of where we wanted to go," says Charlene. "I couldn't wait to learn more, so I bought the books and tapes right away."

The next step for the Frances was to enroll in an MLS Boot Camp. "It was unbelievable," explains Charlene. "Before the Boot Camp, it was if we were trying to put together a complicated machine or toy with no instructions and we always had pieces left over. You spend a couple of days with Ron and he puts all the missing pieces together. All of a sudden everything fit together. Here was a guy that was doing exactly what I wanted to do and doing it the right way and making money."

"By the time we left the seminar, we knew what to do, we knew how to do it, we knew how to look for them and how to repair them," Randy adds. "The information Ron gave us is complete information. Ron is not 'just a suit', he's one of us. He knows this business so well because he does it himself. He's not dressed up in a $2,000 suit worried about how his hair looks the whole time. He spoon feeds the information to you, but he never looks down his nose at you. He's just an everyday guy that people can relate to."

Immediately following the Boot Camp in Chicago, Charlene had to have emergency gall bladder surgery. She was about to find out just how easy the business can be. Still recuperating in the hospital, she bought and resold her first wholesale house lying on her back. "I made $6,000 from my hospital bed," Charlene laughs. "I bought the house for $15,000 and sold it six days later for $21,000. So we made $1,000 a day! It gave me an attitude of 'My God, I can do this!'"

Prior to progressing from part-time to full time in real estate, Charlene worked in human resources for a retail store making

about $15,000 a year. When one of her first deals brought in about $22,000 profit for the Frances, it was definitely a breakthrough. "It was then that I realized I couldn't afford to work for anybody else," she explains. "It was time for me to go for it!"

"You know, I love this business," she chirps. "It's so much fun! When you find a house, there's so much you can do with it. You can flip it, you can re-hab it and put a family into it, you can keep it, you can lease option it," explains Charlene. "Ron teaches you how to be a real estate entrepreneur, not a real estate investor. He teaches you how to control a property and orchestrate deals. Often, the seller and the new buyer are at the closing table with us or within a few hours and we walk away with cash profits right then and there. Other times, we may take title, hold the property for as little as a few days to a few weeks, then 'turn it' and get instant cash profits."

Charlene is a great believer in attending Ron's conferences over and over again. "You never get done learning," she advises. "And we can make thousands from just one new idea Ron gives us. For instance, Randy and I had been showing homes to almost all interested callers and wasting a lot of our time. Ron advised us to run credit reports prior to showing the home. Now we don't show a home unless it's to a qualified buyer. That one idea has saved us tens of thousands of dollars."

The Frances are maintaining approximately 35 to 40 lease/option properties while they buy and renovate other properties. "Every time we sell a house we pick up another lease/option so we can keep our monthly income coming in while we're rehabbing and selling homes," explains Charlene.

The Frances enjoy the aspect of creating liveable houses. "I could never understand all these houses that looked horrible and were just sitting there vacant.. Now we buy junkers, go in and gut them, re-do them and make them a home for somebody. It's such a rush for me!"

Ninety percent of the homes they re-hab and sell are sold to single mothers. "Having been a single mom with three kids myself, I can remember plenty of tearful times when all I could afford to feed my children was crackers. I know what kind of obstacles these women are up against. It's the greatest feeling

in the world to be able to help these women get into homes of their own."

"Once we bought a house that was condemned and the city was going to tear it down," Charlene continues. "We actually had to get a court order to keep them from demolishing it. We were able to buy this house for $5,000. We fixed it up and sold it. Now, instead of that being an empty lot, it's a home, a family a single mom and her three kids live there. No one would give her a chance. Now those kids are going to remember having Christmas in that living room. And we made a very decent profit on it, too. It doesn't get much better than that!"

Their involvement in real estate has completely changed the lives of the Frances and their children in every way, but one - their values remain totally intact. "We could make a lot more money than we do," Charlene says. "But there's so much more to this for us than just making the money. It's giving a single mom and her kids the chance to move into a decent house in a decent neighborhood. It's about showing other people they can do this, too. It's about giving back what you receive."

Another way the Frances give to others is by supporting them in learning the business. "Once a month we hold meetings to introduce people to real estate entrepreneuring," says Charlene. "One young woman we've been mentoring has a husband who has, until recently, been totally opposed to her involvement in real estate. Once she bought her brand-new 24-foot pleasure boat, he finally realized there might be something of value to this!" The boat's name? "Rent-to-Own!"

"I can't think of how life could get any better for us," Charlene says. "Our home is paid, our cars are paid, college for our kids is already set. This business is the neatest opportunity. Our lives have changed so much! It's given us such freedom. Everything used to be such a big deal – even buying groceries. Now paying for a year of college is one deal! And I get such pleasure from blessing other people. Even though this was years ago when we were just getting started, I'll never forget what a joy it was to be able to go and buy new carpet for my mother. She had always helped me so much, it was such a joy to help her. And I was able to pay for the whole thing with a

check!"

Another big blessing in the Frances' lives is the ability to travel with their family. "We've traveled more in the last two years than we've traveled in our whole lives," Charlene explains. "We've taken two cruises just in the last six months! And none of us will ever forget the Christmas we leased an ocean front condo in Cocoa Beach and spent two weeks at having the time of our lives as a family! The kids were thrilled, especially spending Christmas at Disney World!"

When advising her apprentices, Charlene tells them, "Go to Ron's conferences and seminars and listen, listen, listen! The business can take you wherever you want to go. But don't get greedy; don't do it just for the money. Stay around people that are doing the business, and don't forget where you came from!" Sounds like sound advice.

Richard Kansa

Richard Kansa recently fulfilled a long-standing dream – to underwrite a trip for his mother and aunt so they could return to their homeland of Austria-Hungary. Now in her 70's, Richard's mother had not seen the place where she was born since immigrating (in the early 1940's) at the start of World War II. She'd not seen her cousins since they were all small children. She'd never visited the spot where her grandparents, who had been alive when she left, were buried.

"I had made up a dream list when I first entered the real estate business as a full-time entrepreneur," explains Richard. "I remember telling myself if I didn't identify the things I really wanted to do and start doing them, it simply wasn't going to happen. Accompanying my mother and her sister back to Vienna, treating them to a reunion with the family still in Europe, and being there with them to savor the experience was at the top of my list."

Words escape Richard when he tries to describe witnessing the reunion scene on the train platform in Vienna. "It was worth the whole trip," he says. "I just can't tell you what it was like for these people to see one another again for the first time in

over 50 years. So much emotion, so many tears. Squeals and screams of recognition filled the train platform. They met family they never even knew they had. At her first opportunity after we left the train station, my mom bent down to touch the ground. She was home again."

Richard wants the person who made it possible for the trip to take place to know that he played an important role in making his mom's dream come true.

"Ron LeGrand not only taught me this business, he took a personal interest in my success. Right in the beginning, he gave me his home phone number and encouraged me to call him if I needed help. I found that I did indeed need some help in the beginning and I thought if he was dumb enough to give me his number, I'm going to be brave enough to call him."

The personal support Richard received from Ron helped him over his first hump and two weeks later he had his first house under contract. He flipped it and made his first profit as a real estate entrepreneur – $5,000!

"Ron teaches how to make money in real estate, but he also points out so many things that make such a positive difference in your life," Richard says. "For instance, how valuable time is, how important it is for you to leverage your time in order to do the things you want to do, and that someday is now! If Ron wasn't doing what he does, I wouldn't be doing what I do. And doing what I do gave me the time and money to make my mom's dream come true. Talk about job perks!"

Richard was working as an employee trainer and counselor for various client companies all over the U.S. when he first began to give real estate some thought as an investment opportunity. "A colleague of mine suggested we go to a real estate seminar given by some outfit out of Orlando," Richard explains. "I, along with many other attendees, didn't understand anything that they talked about and found it not at all useful. I left with the feeling that I wasted four days of my life."

Despite that disappointing experience, Richard persisted in his quest to find some usable and credible information about real estate investing. He called the president of the local chapter of the Real Estate Investors Association. "I figured if any-

one could tell me anything worth knowing, it would be him. He told me Ron LeGrand was the best in the business and that copies of his book would be available at their next meeting," recalls Richard. "I came to the next meeting, got my copy of the book, and basically read almost half of it while the speaker was doing his presentation. I was fascinated."

Skeptical since being burned by his first experience, Richard called Ron's office and talked to Ray Rach. "I asked Ray if this stuff really worked and if it would work in my area of the country," Richard explains. "He called and set up conference calls with students from all over the country to talk to me about their successes. I signed up for a Boot Camp right then and there." Thinking Ray had told him the conference would be held in Nashville, Richard made plane reservations to get to the event. "I called Ray back to ask him what there was to do in Nashville and he asked me why would I be interested in Nashville night life. He informed me that the Boot Camp was being held in Asheville, not Nashville," Richard laughs. "I had to ask Ray where the hell is Asheville? We still laugh about that one!"

However, he did get his reservations straight and made it to Asheville to attend the Boot Camp. It's a good thing he did. "I knew right away, I'd say within an hour, that this was exactly the information I wanted," says Richard. "I knew immediately that it was what I was going to do even though I was about as ignorant as anyone could be in the field. I had never met a REALTOR® and didn't even know what a title company did."

After leaving the Boot Camp, Richard summarized all the segments of real estate he didn't fully understand and made a list. He set a goal for himself to knock one item off the list each week. "I decided that I would learn something every week," explains Richard. "One week I called a couple of different title companies and asked them to explain to me what it was they did. Most were happy to help." Richard was still working full-time at this point and delving into real estate on a part-time basis. "It was like having two full-time jobs," he points out. "But I told myself that if I could make enough money to live on in six months, I would do this business full-time."

By the end of the six-month period, Richard had purchased

three houses, flipped two and had one under contract. He had made $5,000 on his first flip, $3,500 profit on a second flip and $17,000 on his first retail deal. "I thought that was pretty good for my first deals," he adds. "You know a lot of people were telling me a lot of negative stuff during that period, but I just drew on what Ron had told us. Don't listen to negative people and just apply what you learned. He's right. According to Richard, there isn't any niche of this business that hasn't made him money. "It's been a big learning experience and a period of growth. Sure, I've made some mistakes, but that's part of it. I've made a profit on everything I've done. It's been incredible. I'm now moving away from re-habbing and moving more aggressively into owner-financing. I've got some very interesting things happening now in that arena."

"I love this work," Richard continues. "Working at a job was something I found very confining. It goes back to a personality thing. Work should be an extension of who you are. When someone asks me how many hours a week I work at this, I honestly can't say. It's so much a part of who I am. Only when I worked at a regular job did I know how many hours I worked. To me, what I'm doing now is not work. It's a perfect fit for me."

Describing the tangible and intangible changes that have taken place in his life, Richard says, "What life is about now is the difference between just existing and really knowing what it's like to be alive. This business is a progressive business – one where you can certainly get rich, there's no doubt about that. But you know, rich is a relative term. How much is enough? Being able to do what I want to do when I want to do it and having the means to do it makes me a very lucky man."

Steve Powanda

While attending the University of Pittsburgh to obtain a degree in information science, Steve Powanda spent a significant amount of time reading and studying books and tapes focused on a totally different subject: how to be your own boss. It wouldn't be until years later that he would realize his dream.

Having acquired his four-year degree, Steve set off to join the

corporate world as a software designer and computer programmer at a Washington, D.C. area company. Then, back in Pittsburgh, he spent the next six years with a financial services company. Still intrigued and pursuing entrepreneurial information, Steve began to come across books on real estate and to read about those who were good at creating wealth from investing in real estate. He hungered to know more.

Steve began his real estate career by purchasing a few rental properties. Although he describes the deals as "not bad," the enterprise didn't turn out as well as he had hoped. "For the amount of money, time and effort I spent, I sure didn't see the return I wanted," explains Steve. "As a result, I found myself becoming very disillusioned with it."

It was then he joined an American Congress of Real Estate (ACRE) group whose membership consisted primarily of people buying and fixing property and then renting to tenants. "I was hoping to meet people who were doing what I was interested in doing," Steve recalls. "My experience was very limited, but I knew there was a another way to make a living from real estate other than the way I had been doing it."

Just about that time, the ACRE group had a speaker give a presentation on his method of "quick-turning" real estate. "Despite all my reading and searching, I had never heard anything quite like this before," says Steve. "He got my attention with his 'buy and sell' wisdom versus the conventional 'buy and hold' rhetoric offered up by most other so-called experts. I bought a paperback book Ron was offering at his presentation. I began reading it immediately. It was extremely interesting." In fact, the content of that little book fascinated Steve and prompted him to attend the next scheduled SuperConference where Ron would be speaking. "I could tell by reading his book that this guy was the real thing," Steve comments. "I knew he must be a real estate entrepreneur on a very serious level, not just a guy out there making a living on the seminar circuit."

At the SuperConference, Steve was able to hear and meet a number of people doing extremely well in this business, many on a large scale. "I was now considering doing this eventually on a full-time basis," explains Steve. "I was definitely not

interested in any rinky-dink, part-time business opportunity. This SuperConference showed me that Ron LeGrand was offering a system that was valid, something I could master and turn into a legitimate and successful full-time business. It was just what I wanted."

By the end of the SuperConference, Steve made a decision to proceed to the next level by registering for a Boot Camp. "The information presented in the Boot Camp was totally different than anything I had ever heard of," recalls Steve. "It opened up so many doors of possibility for me. And one great thing happened there. I drew first option on a property our group negotiated on during our 'hands-on' bus trip. I took the option. That really helped me because it forced me to do something immediately following the conference."

At the same time he was working on that deal, he began hunting down some deals of his own. He also started setting up goals for himself. "I don't think of goals necessarily as dollar amounts," Steve points out. "That can sometimes work against you. Instead I shoot for the number of deals I want to do, and look to increase it year after year." Steve's initial goals would act as guideposts for him during that first year.

Unfortunately, he actually lost a couple of hundred dollars on the house he inherited from Boot Camp. Steven looks back at it as his chance to get all his mistakes out of the way early on in his career. "I always say, if you're going to make mistakes, make them in the beginning and lose $500 as opposed to making them later on and losing $5,000," laughs Steve. "I play the stock market. Losses are part of the game. You just try to make them as small as possible. Of course, there are a lot of people in this business who make profits right from the very first deal. I just didn't happen to be one of them."

"Actually, in this business your proficiency becomes more keen as you go along," he continues. "I always tell people the more you do the better you get. Your ability increases and your learning continues. The important thing is to get that first one done and over with!"

His next deal was an true inspiration. "The next deal I did was a fixer-upper I bought, renovated and sold," Steve reports.

"I bought it for about $17,000 and sold it for approximately $48,000. I ended up making about $18,000 net profit on it. Just goes to show, you win some, you lose some! Except for that first deal, I've made money on everything I've done." By the end of his first year, Steven had scratched off every item he had placed on his original goal sheet. He was earning almost twice as much in real estate as he did from his regular job. It was decision time. He knew there were new targets to aim for.

Steve announced his plans to his employers and his family. Although it was difficult leaving what Steve considered a good job, an above-average salary, great benefits, a prestigious company and what most people in Pittsburgh view as the ultimate in security, he had reached his decision.

His family thought he was crazy. His friends worried. Trusted colleagues just shook their heads. "It was the hardest thing I'd ever done in my life," admits Steve. "But I had come to the point where I could no longer work what were essentially two full-time jobs at the same time. I was, as they say, at the point of no return. It was time to chart my own destiny; to make as much money as I felt I was worth; to be my own boss," Steve says. "I had diligently sought this opportunity, and the time was now!"

He has no regrets. "Looking back, I only wish I had been more aggressive at the outset," Steve says. I was really extra cautious. Instead of getting one deal complete before beginning to locate the next one, I would have sought them out and stacked them up in the pipeline. There's a lot to be said for going out there and getting four or five things moving at the same time."

Involved in wholesale, retail and a small amount of owner financing, Steve's favorite niche is retail: locating the distressed properties, fixing them up and re-selling them. "Typically, people are willing to let the distressed properties go for a lot less money and this can create good profit margins," advises Steve. "And just like Ron teaches, if you have the ability to look past how ugly it is to its true value and profit potential, you can force the market value up and do really well for yourself."

One of Steve's best deals was a wholesale deal. "It was so easy," recalls Steve. "From the time I bought it to the day I sold

it, everything just fell into place. I sold it three days after I bought it and made a $12,000 profit without ever even touching it! Of course, they don't come along like that every day, but it's a big thrill when it happens every now and then."

Steve's current goals include upping the number of properties he buys during the next year to 50 or 60 and focusing more on owner financing. "I originally thought you needed money to make money, but as I go along I'm finding that when you find good deals, the money will come," he continues. "I mean there are a lot of people who have a lot of money and are more than happy to lend it to you if the deal is good. And one of the things I learned from Ron is how to tell what is a good deal versus a bad one. It's been incredibly valuable knowledge."

Steve attends Ron's live events again and again. "I learn something every time I go," explains Steve. "And Ron teaches exactly what he does himself. I've gone down to Jacksonville and seen where he does his work. He does this on a day-to-day basis. So he's constantly gaining insights and better ways all the time that he continually shares with his students."

Life has changed quite a bit for Steve since becoming an entrepreneur. "Besides leaving my job and waving good-bye to corporate life, it's enjoying the freedom to organize my life the way I want it," says Steve. "It's a business and I manage myself accordingly. But I love being able to take several get away vacations during the year. I take a lot of mini-vacations throughout the year. I just came back from a week at Greenleaf Resort near Orlando where I was playing golf, tennis and just hanging out because it's such a nice place. I enjoy being able to do that."

At twenty-nine years of age, Steven finds himself working at a career he loves, reaping rewards he feels confident will only continue to increase. Completely debt-free, he prefers to pay cash for everything, including new automobiles and those vacations. "Most everybody I know lives with major debt on everything they own," explains Steve. "I'm so thankful I don't have to do that."

Succeeding

Losers labor under the impression
that winners never fail.

Anonymous

Chapter 17

While Others Fail

The number-one cause of failure in this business is not trying. The second is ignorance. Just the fact you have bought this book sets you apart from the crowd. I have negotiated with hundreds of real estate owners who have never bought a single book on the subject. You are different. Armed with what you have learned here, you have every reason to succeed in real estate investment. Nothing in this book, however, will do the work for you; you must get out and try. And while you're out there taking action, continue to learn as much as you can from every source possible.

Everybody hits stumbling blocks. Remember, you are not alone in this. Later in this chapter, I have included a list of every possible cause of failure in this business and the way to respond to each. The list will help you pinpoint a problem and then work to correct it. If, for any reason, it seems you're spinning your wheels and getting nowhere, just read this chapter again. The cause of your problem and its solution are mentioned somewhere.

The only failure that counts, because it can stop you cold, is mistakenly believing that winners never fail. Remember, only losers use failure as an excuse for giving up. Winners expect to overcome and learn from their failures. They realize they are problem solvers and believe they will always win somehow. If you think about it, I'll bet you agree that even the bad things that have happened in your life have had a good effect on your future.

POSSIBLE PROBLEMS

The list of causes of failure is self-explanatory, but it would be useful to highlight some of the key points.

Fear heads the list because of its unique power to paralyze an investor. So many people fear making offers. Why? Fear of rejection. What is the worst thing that can happen to you if you make an offer? Have you ever heard of someone's getting hurt while making an offer? Some owners may get mad if you make a ridiculous, low-ball offer, but so what? Some will accept the offer, and thank you later for it!

Are you afraid of being chased off the seller's property? Unlikely! Especially if you tell people over the phone, even before you go to the house, how you do business. Remind them there is nothing personal about the offer; it's just numbers. If it works for them, great. If it doesn't, you'll buy another house. If you're still scared to make those offers, hire someone else to make them for you. You can promise your negotiator part of the profit you make when you close, or just pay him a flat fee.

Better yet, hire a buyer's broker to work for you. They usually get paid at the closing from the seller's proceeds, thus there's no cost to you. A buyer's broker is simply an agent who declares he or she represents the buyer in the transaction. They are becoming active in most areas of the country and could be a valuable asset if you are afraid to make offers or simply don't have the time or knowledge to do so. You can find buyer's brokers by simply asking agents if they act in that capacity. If they don't, they should be able to refer you to the right people.

I use a simple philosophy that helps keep me on track and helps overcome some of the negative responses from REALTORS® and sellers — **SW SW SW SW**: *Some Will, Some Won't, So What, Someone's Waiting*!

Everybody makes mistakes. Just don't use them to make excuses. So what if you make a mistake? Every successful real estate investor you will ever meet has made more mistakes than you! That's how they know more than you. Just get on with it and accept mistakes as the necessary cost of being alive and in business.

You're going to make mistakes and you know it. Start making them now so you can correct them and make some

more. Another word for mistake is experience. Few wealthy people lack experience.

Fear of financial loss is another big fear. If this is your fear, then only make deals that don't require your own money and protect yourself from all personal liability. No one should feel he or she has to risk vast sums of life savings to succeed in real estate!

You never have to borrow money from a bank. You don't need cash or credit to invest in real estate. Even in the case of a buy low-sell high retail-type deal, which is the only one that might require money, the money can be put up by investors attracted to good deals. Be conservative if you like; work with sandwich lease options, and use no money at all! However, understand that until you overcome that fear of financial loss, you will be missing out on some of the fun and profit. Keep your risks small so you can keep your losses small. If you lose one now and then, so what! Make it up on the next one.

Fearing the Unknown

Fear of the unknown and of how to structure a deal require just one solution: Get help! It seems the more knowledgeable an investor, the more likely they are to call in an expert when they are in unfamiliar territory. Asking for help when you need it is a sign you are on the right track. See to it you get enough education to start moving. You don't have to know everything to start. You will learn as you go. Just get enough information to start, and call in help as you need it. Use competent professionals and experienced investors as your mentors.

The last thing you should do is get help from someone who knows less than you do. Everyone has an opinion. Value only those opinions that come from people who have "walked the walk," not just "talked the talk." Bad advice can cost you much more than no advice.

Procrastination is the big killer. It kills deals, profits and enthusiasm. Make offers, even if just to keep up the momentum of your business. On a part-time basis, you should make four or five offers each week. On a full-time basis, you should make 20

or 30 offers a week. Remember, you don't have to type up a contract to make an offer. Just sketch it out on a piece of paper so the seller gets the idea. If he says yes, then write it up. By using REALTORS®, you literally can submit several offers at once, thus leveraging your time.

Don't try to go it alone. Some people can, but many successful investors work better with partners. It's more fun with partners, especially spouses. You can bounce ideas off them and see their reaction. And this is one business where you can convert a good idea into hard cash in a matter of days. However, it's also important, from the standpoint of motivation, to surround yourself with positive-thinking people. You can form mastermind groups in areas of common interest. This is a powerful resource, particularly when the group is made up of individuals who are working the same business, trying to accomplish the same goals.

I remember when I was a novice investor. All I wanted to talk about was real estate. Consequently, I only hung around with other real estate-minded people. When I met people who wanted to talk about something else, we had a short conversation. I couldn't wait to get started in the morning. I looked forward to every day with a passion.

The message is: **DO SOMETHING YOU LOVE!**

I warn you, though, stay away from negative thinkers and deadheads. It is especially important, as a beginning investor, to avoid taking advice from those who have not succeeded. Have you ever noticed that everyone has an opinion about real estate? Even people who have never owned a piece of property give advice! I recommend you listen only to real investors who are making more than you. When looking for mentors, surround yourself with people who have demonstrated that they possess knowledge and experience.

A mastermind group is a powerful insurance program for success. I received a letter from Joe Bowman in Ft. Lauderdale about the results of just such a group — one that was formed from our Boot Camp there in February 1992.

Joe's letter said this group of six had made 125 offers in the month after I left. They had bought 25 houses, and several hot

offers were still pending. This wasn't done as a partnership or a group effort. It was the sum of their individual offers. He tells me it's much easier to talk with people who have the same training and have the same objectives. Besides, it's so much more fun to celebrate your successes when you get friends involved.

By the way, I didn't hear the profit figures on those 25 houses, but I'd be willing to bet, if my students bought them, there is at least $300,000 to $500,000 net profit involved.

More Practical Tips

Don't try to make repairs yourself. Hire someone to do them. Ask yourself, "Do I want to be paid as a painter or as an investor?" If you repair the houses yourself, you may become discouraged in this business. Your time would be better put to use making offers. One deal that generates $10,000 profit will pay for a lot of labor!

You need to take control of your own life. Good management can free up a lot of your time so you can accomplish more and enjoy life to the hilt. Manage your time; don't let your time manage you. Plan your activities using a daily planner. Chart your course before you start. Know your goals and your destination. Plan how to get there, and take action.

Stay focused and do not allow yourself to get sidetracked. Remember to work in a little time every day to learn something new. Knowledge ultimately saves time as well as money.

Remember the spaghetti theory, and how it applies to making lots of offers. If you throw enough spaghetti against the wall, some of it is bound to stick! Similarly, if you make a sufficient number of good offers, meaning, of course, offers profitable for you yet tailored to the needs of the seller, you can count on some of them being accepted. It matters little if many people say no when all you need is an occasional yes. That one yes can make you more money than some people make in an entire year.

Chasing too many dead leads is a problem that cures itself quickly. Most investors only need a little practice to realize the

value of carefully screening prospects over the telephone. High gasoline bills and lack of time teach very quickly the value of checking out your leads with key questions before committing your time and money.

Life has few certainties, but the greatest hazard in life is to risk nothing. A popular saying among real estate investors is, "If you will do what others won't for five years, you can do what others can't for the rest of your life."

Throughout this book, I have mentioned just a few of my successful students and their stories. I truly wish I could write about them all, but frankly, there are just too many to give all of them the credit they deserve in the space available.

You know who you are, and I hope you understand why your name wasn't mentioned. I'd have to write a book the size of the Los Angeles phone book to include all of you. I truly appreciate your letters and faxes about your successes. It's what makes us tick around my office, and I hope they never stop coming in. Take time to write down your success story and send it to us with your photo. You'll enjoy the process and at the same time brighten our day. Besides, you never know when we'll make you famous like the folks in this book.

I want all of you to be the best you can be, and I hope all your parents have rich children.

Success Tips

- Take care of your cash-flow needs first, before you try to build wealth. Keep working until your real estate cash flow is equal to or exceeds your income from a job. Then you don't have to worry about making a living. You can start making money.

- Stay focused! Stay on track! Stick to your game plan! If it works, don't even think of anything else, just keep doing it. Don't stray and, above all, keep heading for your goal.
- Take advice only from someone who is making more money than you. Learn from people who are doing. Don't

be afraid to ask for help. The experts all use expert advice. It saves money.

- Make your profit going in. Profit is not borrowed money. Borrowed money has to be paid back. Negotiate good deals and don't depend on appreciation.

- Movement is the key. You have to get out and do things. You will make mistakes, but don't let them stop you. You have to keep it moving. Start somewhere. You may not get rich quick, but if you don't start, you'll never get rich.

- Avoid listening to negative thinkers and deadheads. They are everywhere. The people who are closest to you are usually the most negative. Many people will never understand what you're doing, if you're doing it right. Leave them in your dust; don't let them bury you in their dirt.

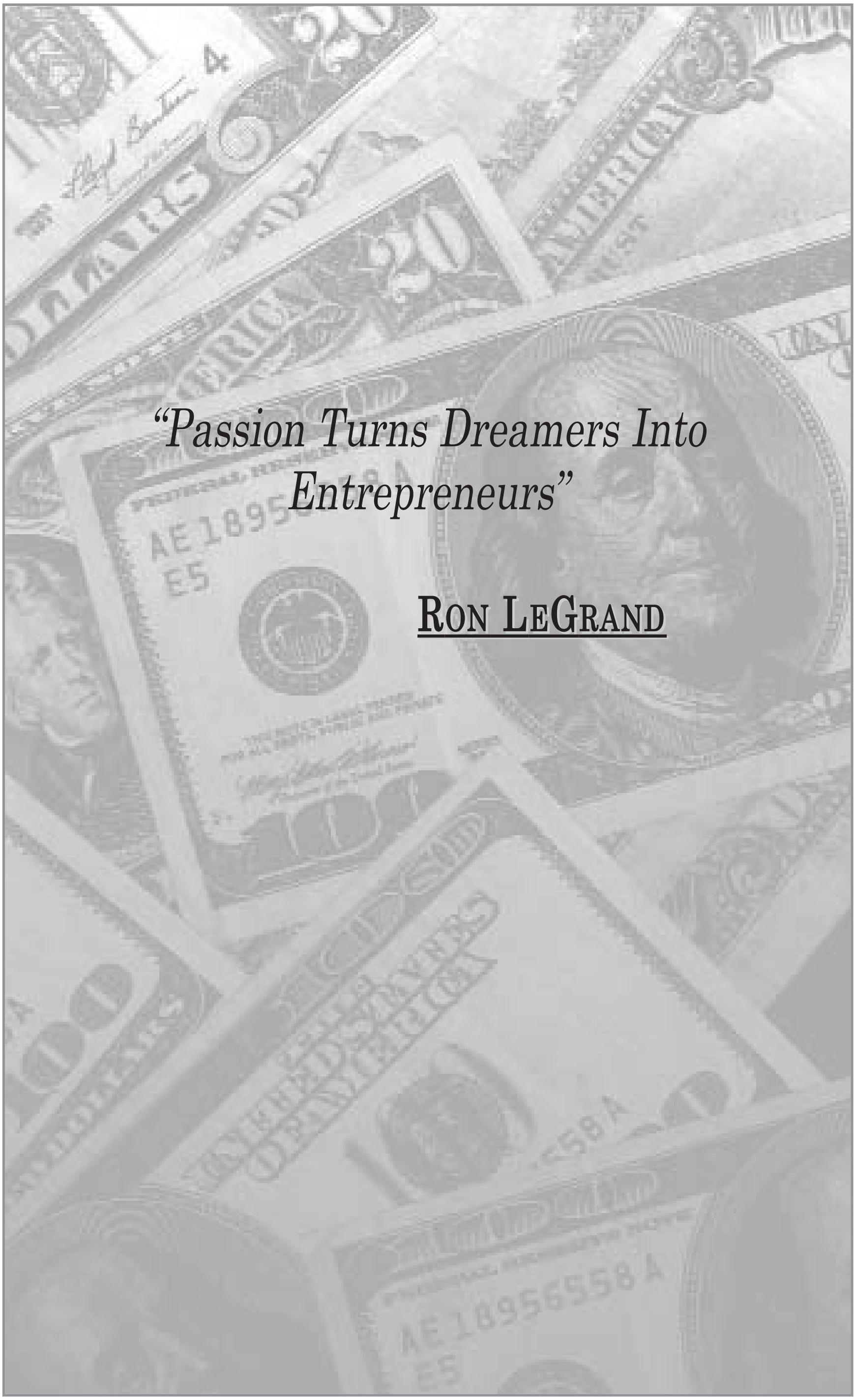
- Deal only with motivated sellers. I probably said this a dozen times in this book. But if you ever catch yourself wasting time with a seller, and feeling generally discouraged in looking for deals, the root of the problem is almost always a lack of seller motivation. You don't want to chase dead-end leads. So screen the sellers well over the phone before you drive anywhere.

- Make a lot of offers. Don't get bogged down in doing the wrong things. Concentrate on activities that produce the most income. Nothing produces more than making offers. If you don't make offers, you won't make deals.

- Make a reservation to attend the very next Boot Camp you can. This valuable hands-on training cannot be found anywhere else. It will save you thousands of dollars in mistakes and give you a focused, easy-to-follow plan to generate cash. You simply cannot afford the mistakes that come with trial and error when such an inex-

pensive Quick-Start opportunity is available. **Take action now. You'll be glad you did.**

- Call or write my office for more information on our full line of training material and events. See page 280 for details.



"Passion Turns Dreamers Into Entrepreneurs"

Ron LeGrand

GLOSSARY OF REAL ESTATE TERMS

Affidavit: A written statement or declaration sworn to or affirmed before an authorized person.

Agreement of Sale: A written agreement in which the purchaser agrees to buy and the seller agrees to sell. Terms and conditions are included in the agreement.

Alienation Clause: Also known as a "due-on-sale" clause. This is a provision that allows a lender to demand payment of the balance of a loan in full if the collateral is sold.

Amortization Mortgage: A debt for which the periodic repayments are used to reduce the principal outstanding as well as to pay off the current interest charges.

Apportionment: The adjustment of the income, expenses, or carrying charges of real estate that is usually computed to the date of closing of title so that the seller pays all expenses to that date. The buyer assumes all expenses from the date on which the deed is conveyed to the buyer.

Appraisal: An estimate of a property's value made by an appraiser who is usually presumed to be an expert in this work.

Appraisal by Comparison: An estimate of value made by comparing the sale prices of other similar properties.

Assignment: The method or manner by which a right or contract is transferred from one person (the assignor) to another (the assignee).

Assumption of Mortgage: This occurs when a person takes title to property and assumes the payment of an existing note or deed of trust.

Balloon Payment: A final installment payment, larger than previous installments, that pays off a debt.

Beneficiary: The person who receives or is to receive the benefits of a certain act.

Bird Dog/Bird Dogger: A person who looks for houses that potentially fit the guidelines of the properties that you prefer to purchase. Bird doggers will bring the information that you require and you will reimburse them for their efforts on whatever basis you have agreed upon.

Bona Fide: In good faith; without fraud.

Capital Gain or Loss: The difference between the basis price (cost plus purchase expenses) of a capital asset and its sales price.

Caveat Emptor: Let the buyer beware. The buyer must examine the goods or property and buy at his or her own risk.

Chain of Title: A history of the conveyances and encumbrances affecting a title from the time the original patent was granted or as far back as records are available.

Client: The principal: the one who employs a broker and who compensates a broker.

Closing Date: The date on which the buyer takes over the property.

Cloud on the Title: An outstanding claim or encumbrance that, if valid, would affect or impair the owner's title.

Codicil: An addition to or amendment of a will.

Collateral: Additional security pledged for the payment of a debt.

Commission: A fee charged for brokerage services.

Commitment: A pledge; a promise; an affirmation agreement.

Complaint: 1. In civil law, the initial statement of the facts on which a complaint is based. 2. In criminal law, the preliminary charge made against the accused.

Comps: See Appraisal by Comparison.

Condemnation: The acquisition of private property for public use with fair compensation to the owner. See also Eminent Domain.

Conditional Sales Contract: A contract for the sale of property stating that although delivery is to be made to the buyer, the title is to remain vested in the seller until the conditions of the contract have been fulfilled.

Consideration: Anything given as an inducement to enter into a contract, such as money or personal services. Any contract, lease, obligation, or mortgage may subsequently be modified without consideration provided that the change is made in writing and signed.

Contract: A legally enforceable agreement.

Covenants: Agreements written into deeds and other instruments promising performance or non-performance of certain acts or stipulating certain uses or restrictions on the property.

Debt Service: Annual amount to be paid by a debtor for money borrowed.

Deed: An instrument in writing, duly executed and delivered, that conveys title to real property.

Deed Restriction: A restriction imposed in a deed to limit the use of the land. A deed might include clauses preventing the sale of liquor or defining the size, type, value, or placement of improvements.

Default: Failure to fulfill a duty or promise or to discharge an obligation; omission or failure to perform an act. In property foreclosure, usually the failure to pay loan installment repayments when they become due.

Defeasance Clause: The clause in a mortgage that permits the mortgagor to redeem his or her property upon payment of the obligations to the mortgagee.

Defendant: The party sued or called to answer in any lawsuit, civil or criminal.

Deficiency Judgment: When the security for a loan is sold for less than the amount of the loan, the unpaid amount (the deficiency) is held by law (the judgment) to be the liability of the borrower unless the new owner has assumed the debt.

Due-on-Sale: See Alienation Clause.

Earnest Money: Down payment made by a purchaser of real estate as evidence of good faith.

Easement: A right that may be exercised by the public or individuals on, over, or through the property of others.

Eminent Domain: A right of the government to acquire property for public use. The owner must be fairly compensated.

Encroachment: A building, part of a building, or obstruction that intrudes on the property of another.

Encumbrance: Any right to or interest in property interfering with its use or transfer or subjecting it to an obligation. In connection with foreclosure property, the most likely encumbrances are mortgages and claims for unpaid taxes.

Equity: In real estate, the difference between the value of a property and the amount owed on it. Also called the owner's interest.

Equity Loan: Junior (subordinate) loan based on a percentage of the equity.

Escrow: A written agreement between two or more parties providing that certain instruments or property be entrusted to a third party to be delivered to a designated person upon the fulfillment or performance of some act or condition.

Estate: The degree, quantity, nature and extent of interest (ownership) that a person has in real property.

Estoppel Certificate: An instrument executed by the mortgagor setting forth the status of and the balance due on the mortgage as of the date of the execution of the certificate.

Eviction: A legal proceeding by a landlord to recover possession of real property.

Exclusive Agency: An agreement to employ one broker only. If the sale is made by any other broker, both are entitled to commissions.

Exclusive Right to Sell: An agreement to give a broker the exclusive right to sell for a specified period. If a sale during the term of the agreement is made by the owner or by any other broker, the broker holding the exclusive right is, nevertheless, entitled to compensation.

Executor: A person or a corporate entity or any other type of organization named in a will to carry out its provisions.

Fee (fee simple, fee absolute): The absolute ownership of real property. This type of estate gives the owner and his or her heirs unconditional power of disposition.

FHA: Federal Housing Administration. See FHA Mortgage Loan.

FHA Mortgage Loan: Mortgage loan insured by the Federal Housing Administration.

Fiduciary: A person who transacts business or handles money or property on behalf of another. The relationship implies great confidence and trust.

First Mortgage: Mortgage that has priority as a lien over all other mortgages. In cases of foreclosure, the first mortgage will be satisfied before other mortgages are paid off.

Foreclosure: A procedure whereby property pledged as security for a debt is sold to pay the debt in the event of default in payments or terms.

Grace Period: Additional time allowed to perform an act or make a payment before a default occurs.

Grantee: The party to whom the title to real property is conveyed; the buyer

Grantor: The person who conveys real estate by deed; the seller.

Habendum Clause: The “to have and to hold” clause that defines or limits the quantity of the estate granted in the deed.

HUD: Department of Housing and Urban Development. This agency has a broad mission in the entire housing industry. The

specific area of interest to you, as an investor, is its involvement in subsidizing rents for low-income housing and the marketing of repossessed houses. Many of the HUD repos provide EXCELLENT investment opportunities.

Hypothecate: To use something as security without giving up possession of it.

Installments: Parts of the same debt, payable at successive periods as agreed; payments made to reduce a mortgage.

Intestate: A person who dies before making a will, or whose will is defective in form.

Irrevocable: Incapable of being recalled or revoked; unchangeable; unalterable.

Joint Tenancy: Ownership of property by two or more persons, each of whom has an undivided interest with or without the right of survivorship.

Judgment: Decree of a court declaring that one individual is indebted to another, and fixing the amount of such indebtedness.

Junior Mortgage: A mortgage second in lien (subordinate) to a previous mortgage.

Landlord: One who rents property to another.

Land Contract: In reality, a land contract is a promise to pay. In other words, if you buy a house under a land contract, you promise to pay an agreed-upon amount on or before a specific date. Once the terms have been fulfilled, the seller will then deed the property to you.

Land Trust: A means of taking control of a property anonymously. The only name that will appear on public records will be the name of the trust and, usually, the name of the trustee. The land trust provides some asset protection in that it requires a good deal of digging via legal channels to discover if a person is the beneficiary of a trust.

Lease: A contract whereby, for a consideration, usually termed rent, one who is entitled to the possession of real property transfers such rights to another for life, for a term of years, or at will.

Leasehold: The interest given to a lessee of real estate by a lease.

Lessee: A person to whom property is rented under a lease.

Lessor: One who rents property to another under a lease.

Lien: A legal right or claim on a specific property that attaches to the property until a debt is satisfied.

Life Estate: The conveyance of title to property for the duration of the life of the grantee.

Lis Pendens: A legal document filed in the office of the county clerk giving notice that an action or proceeding, affecting the title to a property, is pending in the courts.

LTV (Loan-to-Value Ratio): Refers to the amount of money loaned on a property relative to its actual value. For example, a loan of $20,000 on a $40,000 house would be a 50% LTV ratio.

Marketable Title: A title that the court considers to be so free from defect that it will enforce its acceptance by a purchaser.

Mechanic's Lien: A claim made to secure the price of labor done upon and materials furnished for uncompensated improvement.

Moratorium: An emergency act by a legislative body to suspend the legal enforcement of contractual obligations.

Mortgage: An instrument in writing, duly executed and delivered, that creates a lien on real estate as security for the payment of a specified debt, which is usually in the form of a bond.

Mortgage Broker: One who is paid to match borrowers with lenders.

Mortgagee: The party who lends money and takes a mortgage to secure their payment.

Mortgagor: A person who borrows money and gives a mortgage

on his or her property as security for the payment of the debt.

Multiple Listing: An arrangement among members of the Board of REALTORS® whereby brokers bring their listings to the attention of the other members. If a sale results, the commission is divided between the broker providing the listing and the broker making the sale.

Non-Qualifying Assumption: A mortgage or deed of trust that does not contain a due-on-sale clause, thereby allowing transfer of title freely without permission from the lender.

Obsolescence: Loss in value due to reduced desirability and usefulness of a structure because its design and construction has become obsolete.

Open Listing: A listing given to any number of brokers with commissions payable only to the broker who secures the sale.

Open Mortgage: A mortgage that has matured or is overdue and, therefore, is "open" to foreclosure at any time.

Option: A right given for a consideration to purchase or lease a property upon specific terms within a specified time. If the right is not exercised, the option holder is not subject to liability for damages. If exercised, the grantor of option must perform.

Pay-off Letter: A letter from a lender stating the current balance due on an account; also referred to as an estoppel letter or certificate.

Performance Bond: A bond used to guarantee the specific completion of an endeavor in accordance with a contract.

Personal Property: Any property which is not real property.

Plat Book: A public record containing maps of land showing the division into streets, blocks, and lots and indicating the measurements of the individual parcels.

Points: Discount charges imposed by lenders to raise the yields on their loans. One (1) point equals one (1%) percent of the loan amount.

Prepayment Clause: A clause in a mortgage that gives a mortgagor the privilege of paying the mortgage indebtedness before it becomes due, either with or without prepayment penalty.

Proration: Allocation of closing costs and credits to buyers and sellers.

Purchase Money Mortgage: A mortgage given by a grantee or any other lender in partial payment of the purchase price of real estate.

Quiet Title Suit: A suit in court to ascertain the legal rights of an owner to a certain parcel of real property.

Quitclaim Deed: A deed that conveys simply the grantor's rights or interest, if any, in real estate; generally considered inadequate except when interests are being passed from one spouse to the other.

Real Estate Board: An organization whose members consist primarily of real estate brokers and salespersons.

REO (Real Estate Owned): Property acquired by a lender through foreclosure and held in inventory.

Real Estate Syndicate: A partnership formed for a real estate venture. Partners may be limited or unlimited in their liability.

Real Property: Land and generally whatever is erected upon or affixed thereto.

REALTOR®: A term used to identify active members of the National Association of REALTORS® (NAR®), This term is commonly used to refer to anyone licensed to sell real estate. However, the term "REALTOR®" only applies to those dues-paying members of NAR.

Recording: The act of writing or entering, in a book of public record, instruments affecting the title to real property.

Recourse: The right to claim against an owner of a property or note.

Red Lining: The refusal to lend money within a specific area

for various reasons. This practice is illegal because it discriminates against creditworthy people who happen to live there.

Release Clause: A clause found in a blanket mortgage which gives the owner of the property the privilege to pay off part of the debt, and thus free part of the property from the mortgage.

Repo: A shortened or slang version of repossession.

Repossession: Repossession occurs when a lender takes possession of the collateral which was security for a loan.

Right of Redemption: Right to recover property transferred by a mortgage or other lien by paying off the debt either before or after foreclosure; also called equity of redemption.

Right of Survivorship: Right of the surviving joint owner to succeed to the interests of the deceased joint owner. This right is a distinguishing feature of a joint tenancy or tenancy by the entirety.

RTC (Resolution Trust Corporation): An organization set up by the government to market houses from the inventory of federally insured, defunct banks and other lending institutions.

Sales Contract: A contract by which the buyer and seller agree to terms of sale.

Second Mortgage: A mortgage made by a home buyer in addition to an existing first mortgage. The order of recording determines the seniority of the lien.

Seller Financing: Refers to the owner of a property who agrees to carry a mortgage on the property that he or she is selling, so that the buyer doesn't have to obtain any or all of the financing from another source or lending institution.

Specific Performance: A remedy in a court of equity compelling a defendant to carry out the terms of an agreement or contract.

Split Funding: A technique whereby an investor offers a small amount of cash to close the deal with the balance due at a later date in a form other than extended monthly payments.

Statute of Frauds: Law requiring certain contracts to be made in writing or partially complied with in order to be legally enforceable.

Subdivision: A tract of land divided into lots or plots.

Subordination: See Subordination Clause.

Subordination Clause: A clause in a mortgage that gives priority to a mortgage taken out at a later date. The seller agrees to go into a second, third or fourth position allowing you to obtain new financing senior to their lien without paying them off from the proceeds.

Substitution of Collateral: Taking an existing mortgage on one property and transferring it to another.

Survey: The process by which a parcel of land is measured and its area ascertained; also the blueprint showing the measurements, boundaries, and area.

Tax Sale: Sale of real property after a period of non-payment of real estate taxes.

Tenancy in Common: An ownership of realty by two or more persons, each of whom has an undivided interest, without the right of survivorship.

Tenancy by the Entirety: An estate that exists only between husband and wife with equal right of possession and enjoyment during their joint lives and with the right of survivorship.

Tenancy at Will: A license to use or occupy lands and tenements at the will of the owner.

Testate: Condition when a person dies leaving a valid will.

TPA (Third Party Administrator): One who is approved to administer funds from a retirement program. You must use a TPA to access money from your retirement accounts for self-directed activities.

Title Company: A firm that examines title to real estate and/or issues title insurance.

Without Recourse: Words used in endorsing a note or bill to denote that the future holder is not to look to the endorser in case of nonpayment.

Wrap (Wraparound Loan): A new loan encompassing any existing loans.

APPENDICES

APPENDIX A

Property Acquisition Worksheet

Address:____

1. Sale price after fix-up	_________	
2. Down payment	_________	
3. Purchase closing costs	_________	
4. Commission	_________	
5. Appraisal	_________	
6. Termite	_________	
7. Survey	_________	
8. Misc.	_________	
9. Total acquisition expense		(-)_________
10. Repair budget	_________	
11. Cost overruns	_________	
12. Total fix-up costs		(-)_________
13. Payments for six months	_________	
14. Property tax	_________	
15. Insurance	_________	
16. Utilities	_________	
17. Total holding costs		(-)_________
18. Sale closing costs	_________	
19. Commission	_________	
20. Advertising	_________	
21. Total sale costs		(-)_________
Sale price less lines 9, 12, 17, 21		$__________
Mortgage payoffs		(-)_________
ESTIMATED NET PROFIT		$__________
CASH REQUIREMENT (Lines 9,12,13,15,16,20)		$__________

APPENDIX B
BIRD DOG

Make $2,000 A Month

NO CREDIT — NO MONEY — VERY LITTLE KNOWLEDGE

- Write down the phone numbers on all For Sale By Owner (FSBO) signs, then call those numbers and get information sheets completed.
- Fill out information sheets on any and all houses for sale by private owners. Do this for FSBOs and any other houses you can find.
- Submit those sheets to my office.

YOU GET $250 IF WE BUY

- Make up an information sheet on all vacant houses not listed with REALTORS®, especially if the houses are run down.
- Try to locate owner's name, address, and phone number.
- Submit sheets to my office.

For Bird Doggers!

YOU GET $250 if we buy and you furnished owner's information.

YOU GET $100 if we buy and you did not furnish owner's information.

APPENDIX C

Property Information Sheet

Submitted by:____

Date:__________________________ Phone:____________________

Address:____

Area:____

This is a FSBO:________________Listed:____________________

Other:____

Owner's name:_____________________Owner's Phone:________

Owner's address:____

____

Asking price: $____

Terms:____

Existing mortgages:

1st

$______Lender___________Rate____Pmt____FHA/VA/Conv____

2nd

$______Lender___________Rate____Pmt____FHA/VA/Conv____

Does house need repairs?________ General description of repairs: ____

____

Bedrooms____________Baths_________ Construction__________

Central Heat_______________________ Central Air____________

Garage________Range________ Refr_________________________

Is the house: Vacant________Occupied_____________________

EXTRAS: ____

____

____

COMMENTS: ____________________________-

____

____

APPENDIX D

Letter To an Out-Of-State Owner

YOUR NAME.
Address
City, State, ZIP

Dear Homeowner:

We are a group of investors who buy and sell houses in the Jacksonville area. Through public records, we are aware of the property you own here in Jacksonville. If you are interested in selling and need FAST CASH, please call Bob at (   )   -   or, if you prefer, you can fill out the bottom portion of this letter and mail it to us at the address above. We guarantee you an offer, and we will be in contact with you as soon as we receive the information listed at the bottom.

We are looking forward to doing business with you, and have a GREAT NEW YEAR !

Sincerely,

Your Name

______ YES, I am interested in selling my property located at

____

I am asking $____________________ for the property.
It is ( ) Occupied ( ) Vacant.
NAME:____
ADDRESS:____
CITY:___________________________ STATE:_________ ZIP: _________
PHONE #: ____
NOTES:____
____
____
____

We will inspect the property from the exterior and call you shortly with an offer.

APPENDIX E

Subordination Agreement

THIS SUBORDINATION AGREEMENT MADE this ________ day of_________, 19__, by and between ____________________, mortgagor and______________________, mortgagee.

WITNESSETH:

WHEREAS, the mortgagees are the owners and holders of that certain mortgage executed by mortgagor and recorded on ____________, in Official Records, Vol_____, Page______, of the current public records of ___________________________________ County_________City______________________ State__________, which secures that certain mortgage note in the original principal sum of _______________________________(the "mortgage"), and

WHEREAS, the mortgagor intends to refinance the property secured by said note and requires this Subordination of Mortgage as a condition precedent to purchasing said property.

NOW, THEREFORE, in consideration of the promises and of the advantages to be derived from the execution and delivery of this agreement, the mortgagee further agrees that the mortgagor shall automatically be entitled to refinance any currently existing, prior, or new liens and/or mortgages encumbering the subject real property, and upon the recordation of any mortgages or liens that act as the refinancing of said prior or new mortgages, same shall automatically be considered superior to the lien of the mortgage, no matter when same shall have been recorded. This agreement is intended to operate as an automatic subordination agreement whereby the mortgagee agrees and has agreed to subordinate the lien of their mortgage to the refinancing of any prior liens and/or new mortgages without the necessity of recording an additional subordination agreement.

FURTHER, mortgagees represent and warrant that they are the sole owners of said mortgage and have full power and authority to execute and deliver this Subordination Agreement.

IN WITNESS WHEREOF, the parties have caused this instrument to be executed and their seals affixed the day and year first above written.

______________________ ______________________
Witness Seal

______________________ ______________________
Witness Seal

______________________ ______________________
Witness Seal

STATE OF______________________

COUNTY OF____________________

On __________, 199___, before me, a Notary Public, personally appeared ____________________ , ______________________ and ____________________ , known to me (or proven to me) to be the persons set forth above who acknowledged that they had executed the foregoing document for the purposes contained therin. Witness my hand and official seal.

____

NOTARY PUBLIC STATE OF_____________

MY COMMISSION EXPIRES_____________

APPENDIX F

Notice of Substitution of Collateral

The undersigned herewith files this "Notice of Substitution of Collateral" notifying all interested persons and parties that from this date forward the mortgage dated the ____________ day of________________, 19____, and recorded under Clerk's number________________, of the public records of ____________County, ______________, is herewith modified and amended to substitute for the collateral therein described as the security for said mortgage to the real property more particularly described as:

Hereinafter, the real property currently described in said mortgage and note are forever released from the lien of this mortgage, and the lien of same is herewith transferred to the real property described herein above.

This notice is filed pursuant to the terms of that certain "Agreement for Substitution of Collateral" previously filed herein and recorded under Clerk's number__________________, of the public records of _____________ County, _____________.

IN WITNESS WHEREOF, I have set my hand and official seal on the____________day of ________________, 19_____.

Signed and sealed in our presence as witnesses:

__________________________ __________________________

__________________________ __________________________

STATE OF____________________________________

COUNTY OF__________________________________

BEFORE ME personally appeared_______________________to me well known and known to me to be the individual described in and who executed the foregoing instrument, and acknowledged to and before me that he executed the same for the purposes therein expressed.

WITNESS my hand and official seal this ____________day of_____________, 19___, at_____________________County and State aforesaid.

____

NOTARY PUBLIC, STATE AND COUNTY AFORESAID

My commission expires:

APPENDIX G

Telephone Questionnaire for Potential Buyers

Date:______________ Source of call: ____________________________
Name:____
Address:____
City:__________________________State:________ ZIP:___________
Phone: W _____________________ H __________________________
What is the maximum down payment available?_____________
What price range?______________________________________
Maximum payment affordable?______________________________
What areas are acceptable?_______________________________
How many bedrooms and bathrooms required?_______________
Construction preferred?___Frame ___Brick ___Concrete block
Is a garage mandatory?__________________________________
How is credit?____Good ____Fair ____ Poor
When are you ready to buy?_______________________________
What is the problem (If there is one)?______________________
____
How many square feet are needed? ________________________
Other requirements:_____________________________________
____
____
____
____
____
____
Comments:____
____
____
____
____
____

APPENDIX H

Getting Your House Ready to Market

A checklist of suggestions for fixing up your property

EXTERIOR
Fix up front first
Landscape, clean yard, trim trees and shrubs, edge driveway
Paint using semi-gloss, two colors
Hang shutters
Hang large house numbers
Install fancy front door
Put in new windows if needed, at least in front

KITCHEN
Replace cabinet fronts
Install nice-looking sink, new knobs
Hang wallpaper with borders
Lay shiny new linoleum floor
Hang up a deodorizer (cinnamon spice)
Appliances not mandatory
Install fancy wall plugs
Install ceiling fan
Put up mini-blinds
Install smoke alarm

LIVING ROOM
Add some bright paneling
Add molding at ceiling
Hang inexpensive curtains or mini blinds
Lay carpet and pad (have a professional do the work)
Install ceiling fans

BATHROOMS
Refinish tub and sink if necessary

Put marolite over bad walls
Hang wallpaper with border
Replace ugly faucets
Hang shower curtain
Install mini-blinds
Use denture tablets to clean toilets

BEDROOMS

Paint with semi-gloss, trim in different shade
Do not strip wood and restain
Consider cedar in closet
Install ceiling fan
Wallpaper at least part of master bedroom
Install mini-blinds
Lay carpet and pad

APPENDIX I

Authorization to Release Information

(Use for credit check
or acquiring information concerning a loan)

I/We hereby authorize you to release to ______________________ any and all information that they may require for the purpose of a credit transaction. You may reproduce this document to acquire reference from more than one source.
Thank You

Signature	Soc. Sec. #	Date
Signature	Soc. Sec. #	Date

APPENDIX J

Causes and Cures of Failure

Cause:	Cure:
• Fear of making an offer.	• Hire someone else
• Fear of making a mistake.	• You will — Do it and get on with it, but keep them small.
• Procrastination! Poor time management.	• Daily planner — breaks big tasks into small pieces. You must convert knowledge to action!
• Don't do your homework.	• Property Acquisition Worksheet.
• Not around the right people.	• Join a real estate association. Stay away from deadheads.
• Don't have the necessary education.	• Investment clubs, partners, books, my Boot Camp, tapes, seminars. Inexpensive education is all around you.
• Try to go it alone.	• It's more fun with a companion.
• Try to do repairs yourself.	• Job out everything. It's cheaper.
• Not aware of how to raise money.	• Read this book. Find a partner. Do deals that don't require money: See *Money Tree* (Chapter 10).

Cause:	**Cure:**
• Dealing with unmotivated sellers.	• Pre-screen your sellers.
• No goals; no plan; no road map.	• Chart your course before you start. Use a planner.
• Forget the spaghetti theory.	• If you make enough good offers, some will accept. Remember: SW SW SW SW (Chapter 16).
• Cannot communicate with people.	• Get someone to do it for you. Not required for you to ever talk to a seller.
• Chase too many dead leads.	• Practice and a high gasoline bill will soon cure this one.

Real Estate/Business/Self-Help

Some people think the only way to make money in real estate is to buy property, sit on it for twenty or thirty years, contend with bad tenants, plugged toilets and negative cash flow, then sell for a profit. In this book, Ron LeGrand will show you why that simply isn't true. You'll learn easy techniques to Quick-Turn single family houses into cash almost overnight without credit and little or no money.

Ron LeGrand, the Master of Quick-Turning Real Estate for FAST CASH, packs these pages with his most powerful strategies and techniques to enable you to achieve a level of financial success and independence most people only dream of.

This book is a *must read* for anyone who wants to make money in real estate.

Some of the "how-to" secrets revealed inside...

Make fast cash from real estate in days, not years
Buy houses without using a dime of your own money
Get rich on "fixer-uppers" without lifting a hammer
Find motivated sellers
Negotiate win-win deals
Sell houses fast
Succeed while others fail

Information you can use to put yourself on the path to financial independence.

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Ron LeGrand's

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Client Agreement

I understand and agree that no guarantee has been made or could be made that I will actually consummate a transaction involving a property during or after the class or that I will be guaranteed any kind of monetary refund, rebate, commission, or any other monies if I don't.

Acknowledgment Required/Initial Here ________

I agree to send a letter or fax to GPI describing my successes from what I learned and put into action from this event. This correspondence will take place within ten (10) days of the close of sale of the property.

Acknowledgment Required/Initial Here ________

I understand and agree that any technique, form, trade secret or agreement furnished by me and shared with the group can be reproduced and used at a later date. I further consent to the reproduction of any photograph and taped conversation, including testimonials and agree to the use of the same for educational or promotional use. This consent is given with no expectation of compensation thereof.

Acknowledgment Required/Initial Here ________

I understand that solicitation of any type of goods or services to GPI clients is strictly prohibited. Furthermore, the passing of petitions and distribution of written information are not allowed. Commercial activity including: solicitation, interviewing, recruiting, selling and distribution of flyers, petitions or other written information is also prohibited unless you are given specific written permission by GPI prior to the event.

Acknowledgment Required/Initial Here ________

I acknowledge that neither GPI nor Ron LeGrand function as my agent, personal accountant, lawyer or financial advisor. I acknowledge that I am responsible for my actions and hereby release Ron LeGrand, GPI and affiliated companies and any of their staff, employees, officers or agents, from liabilities for any of my actions or comments influenced by information contained in products and services received.

Acknowledgment Required/Initial Here ________

I also understand by breaking this agreement there will be absolutely no grounds for a refund of any kind, all fees will be forfeited and I will be asked to leave the training event immediately. I also agree that there are no grounds to contact my credit company since my refund has been forfeited.

Acknowledgment Required/Initial Here ________

I understand and agree to the conditions above.

Signed ________________________________

Print Name ____________________________

Date Attended __________________________

Class Attended _________________________

Location ______________________________

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Table Of Contents

Buying With Seller Financing

What Is Seller Financing?

When a sale is made where any part of the sales price becomes a note back to the seller, it is considered seller financing.

What's The Difference Between A Note And A Mortgage Or Deed Of Trust?

The note is the debt instrument containing the amount, interest, payment and term. It's the document requiring a guarantee by most lenders, and the one you may get sued to collect.

The mortgage or deed of trust is a document used to attach the note to the house as collateral.

Advantages Of Seller Financing

1. Lower rates and lower payments when buying.
2. Lower closing costs buying and selling.
3. No banks to deal with buying and selling.
4. Doesn't show on your credit report.
5. Flexibility buying and selling.
6. No personal liability when using trusts.
7. Solves negative cash flow.
8. Can eliminate due on sale clauses or balloons when buying.
9. Sets up future profit center by discounting, substituting collateral or subordination.
10. Can close quickly buying and selling.
11. Eliminates seller's and seller's attorney's anxiety about selling subject to.
12. Makes the house much easier and faster to sell.
13. Let's you create almost instant profits and huge monthly cash flows very quickly.
14. Gives the seller a provable income stream to wash out their debt payment so they can qualify for another loan.
15. No maintenance, taxes, insurance or vacancies when you sell.

How Can I Buy With Owner Financing If There Is A Due On Sale Loan?

A bank cannot stop a seller from selling with owner financing. However, they can call the loan due because it will trigger the due on sale clause.

You must make sure this is disclosed to your seller in writing (CYA letter), so the risk stays with the seller.

It's unlikely to be called due if payments are made and there is a way to cash out and pay off the loan if necessary, even if you sell on installments. The risk is small but still cannot be ignored.

CYA Letter For Buying With Seller Financing

The Seller's Acknowledgements letter attached is a modified version of a CYA letter submitted by Brian Rhodes. It's been adapted to include buying on a wrap or land contract.

This document should be signed at closing with each line initialed. Give it to your attorney and ask to be included in the closing package. He/she may want to add more or modify.

If the property is in foreclosure, you must add the special CYA letter attached and get both signed. It costs nothing extra and may save you future expense and grief if the seller develops memory loss.

Do not leave this out because you think the seller won't sign. If they won't, you're better off not doing the deal. Full disclosure must be present or certain problems will follow.

Prospects will gladly sign. Suspects will not. Let them sell to someone else.

Seller's Acknowledgements

I, ___________________________________ (Seller), on this ____ day of _______________, 20_____, have agreed in writing to sell the property commonly known as ____, (The Property) to________________________________ (Buyer) and or assigns, according to the terms and conditions contained in the Purchase and Sale Agreement (The Agreement) of even date, a copy of which is attached hereto. I further state as follows:

________ 1. OWNERSHIP OF THE PROPERTY: I am the owner of The Property (or I have an equitable interest in The Property) and am able to contract for its sale.

________ 2. ACCEPTANCE: I have reviewed the terms and conditions contained in The Agreement and have accepted Buyer's offer to purchase The Property.

________ 3. GOOD AND VALUABLE CONSIDERATION: I have received good and valuable consideration in signing The Agreement, and I acknowledge both the receipt and the sufficiency of the consideration.

________ 4. IN MY BEST INTEREST: I am satisfied with The Agreement and have agreed to sell The Property because it is in my best interest to do so.

________ 5. FULLY INFORMED AND NOT CONFUSED: I have signed The Agreement being fully informed and with sufficient understanding of all terms and conditions contained therein. I am not confused about any aspect of The Agreement.

________ 6. SATISFIED WITH THE SALES PRICE: I understand I may be selling The Property for less than market value but have chosen to do so because circumstances dictate that an immediate sale, even at a discounted price, is in my best interest. I am satisfied with the sales price I have negotiated.

________ 7. SALE IS FINAL: I understand by signing The Agreement, I have agreed to sell The Property to Buyer and am now bound by the terms and conditions described in The Agreement. I further understand that I cannot change my mind or cancel the contract at some later date, nor can I continue to market The Property to any other buyer.

________ 8. I understand my loan has a due on sale clause, which means the lender could call the loan due and payable upon transfer, which could affect my credit and/or financial situation.

________ 9. NOT A LOAN: I understand The Agreement I have signed is for the outright sale of The Property and is not intended to be a loan of any kind.

________ 10. AGREEMENT MAY BE ASSIGNED: I understand Buyer may assign The Agreement to another party and I may be closing the sale with someone other than Buyer.

________ 11. I understand the loan will stay in my name until paid in full and I have not been promised a specific date that will happen unless so stated in other closing documents.

________ 12. I understand the buyer may sell the house with owner financing and I have no control over his/her/its choice to do so.

________ 13. BUYER ENTITLED TO MAKE A PROFIT: I understand Buyer may resell The Property and may realize a profit in doing so. I agree Buyer is entitled to any profit that may ultimately result from the subsequent resale of The Property.

________ 14. LEGAL COUNSEL ADVISED: I acknowledge Buyer has advised me to seek independent legal counsel to review The Agreement.

________ 15. FINANCIAL REVIEW ADVISED: I acknowledge Buyer has advised me to seek an independent financial advisor to review The Agreement.

________ 16. FAIRLY NEGOTIATED: I understand Buyer has negotiated on his own behalf and likewise, I have negotiated on mine. I acknowledge The Agreement has been negotiated fairly and Buyer has not taken advantage of me or my current situation.

________ 17. NO PRECLUDING AILMENTS: I have no physical, mental or emotional ailments that preclude me from signing The Agreement.

________ 18. NOT UNDER THE INFLUENCE: I am not now under the influence of alcohol or any other mind-altering substance, nor am I taking medication that would cloud my judgment or make me unable to think clearly.

________ 19. NO OTHER PROMISES: I have not been promised anything other than what is described in The Agreement. There are no unresolved issues, no side agreements, nor are there other terms not disclosed in The Agreement.

________ 20. NOT UNDER DURESS: I am not under duress and have signed The Agreement of my own free will, without any undue financial pressure. Buyer has in no way pressured me into signing The Agreement.

________ 21. FULLY SATISFIED WITH AGREEMENT: I am fully satisfied with all terms and conditions contained in The Agreement.

Dated this _____ day of ___________________, 20____.

___________________________ Seller (Signature)

___________________________ Seller (Signature)

CYA Letter For All Houses You Buy With Payments In Arrears

DISCLOSURE REGARDING REAL ESTATE TRANSACTION

This document serves as an explanation and disclosure regarding the property at ____.

The purchase of your property was made possible because we may be able to negotiate with the Lender/Lenders to have them take less than what was owed as a payoff.

In some cases, the Lender with whom we negotiated may require you as the original mortgagor to pay the difference of what was remaining owed as a deficiency judgment.

This document in no way guarantees we have completed or promise to complete this transaction or close on the above property before the foreclosure auction. If negotiations are unsuccessful and we cannot close and consequently the property goes to sale, you agree to hold harmless ____ and his, her, their, or its agents, servants, successors, heirs, executors, administrators and all other person(s), corporations, firms, associations or partnerships of and for any and all claims, actions, causes of action, demands, rights, damages, costs, loss of service, expenses and compensation whatsoever, which the undersigned now has/have or which may hereafter accrue on account of or in any way growing out of any and all known and unknown, foreseen and unforeseen from the sale of property located at ____.

If the Lender refuses to honor the approved discount(s) and closing the purchase is not possible the property could go to foreclosure. If this occurs the seller agrees to hold harmless the buyer, trustee or agents.

In the event the short sale is successful and there is no deficiency judgment the discount received may become a taxable event to you. This may or may not be disclosed or followed through by your Lender.

The buyer in no way is acting as a "Foreclosure Consultant" and has not promised you they would guarantee payments, guarantee to bring the loan current, guarantee that the property will be paid off or kept out of foreclosure.

You herein acknowledge the property would be lost at the foreclosure if this transaction did not take place.

The buyer has the ability to re-sell said above property through a contractual interest or as principle owner and holder of the deed and is not acting as Real Estate Broker capacity.

THE UNDERSIGNED HAS READ THE FOREGOING RELEASE AND FULLY UNDERSTANDS IT.

Signed, sealed and delivered this _______ day of ____________ 20 ___________.

_______________________________ _______________________________
Witness (Seller)

_______________________________ _______________________________
Witness (Seller)

_______________________________ _______________________________
Witness (Buyer)

STATE OF

COUNTY OF

On the ______ day of _________________, 20 __________, before me personally appeared ____
To me known to be the person(s) named herein and who executed the foregoing Release and who acknowledge to me that they have read the foregoing release and understands the contents thereof and that they voluntarily executed the same.

My term expires:

___________________ _______________________________
Notary Public

What Is A Wrap Or Wrap Around?

It's simply one loan that encompasses another loan or loans of smaller value.

Example:

You buy a house and take over a $160,000 first mortgage and a $30,000 second mortgage, $190,000 total price.

Now you sell the house for $210,000 with $20,000 down and take a mortgage, land contract or AITD (All Inclusive Trust Deed) for $190,000.

Note to you	$190,000	10% - 30 yrs	$1,667.39 month income
Existing First	$160,000	7% - 30 yrs	- $1,064.48 month outgo
Existing Second	$ 30,000	9% - 15 yrs	- $ 307.28 month outgo
			$ 295.63 Net

The $190,000 note wraps around the $160,000 and the $30,000. The total debt is $190,000. The $160,000 and the $30,000 are part of the $190,000. You have no equity in the note. You collect $1,667.39 and pay out $1,371.76 and keep the difference. When you're paid off, you must pay off the $190,000 to clear the title.

So Why Sell On A Wrap With No Equity?

1. To make sure the underlying note gets paid.
2. To receive $295.63 per month cash flow.
3. Possible default of buyer and forfeiture of 20K.

The Three Basic Ways To Buy Houses With Seller Financing

Example 1—Long Term Seller Financing: (House Free And Clear)

Seller calls you with a house worth $150,000 in good condition. He's asking $150,000, has no loan and, after prescreening, you find he would be willing to owner finance with a 10% down payment.

Asking:

$150,000	Value
$150,000	Asking Price
$ 15,000	Asking Down
$135,000	Mortgage, Land Contract or Deed of Trust to seller at a requested rate of 6% for 30 years with a 10 year balloon.

You Offer:

$135,000	Price
$ 5,000	Down
$130,000	5%, 30 years, 10 year balloon, payment of $697.87 principal and interest with the first one due in 3 months, no due on sale clause.

You Sell:

$159,900	Sales Price
$ 20,000	Down From Buyer
$139,900	Deed of Trust, Wraparound Mortgage or Land Contract to you at 9.9% for 30 years with a 5 year balloon. Payments to you of $1,217.40 P & I.

Results:

1. $15,000 profit on down payment ($20,000 from buyer less $5,000 to seller), plus two months income of $1,217.40 with no payment.
2. $519.53 per month on payment spread ($1,217.40 incoming less $697.87 outgoing).
3. $9,900 minimum on back end ($139,900 owed you less $130,000 you owe seller). This profit increases each month because the incoming debt pays off slower than the outgoing due to the differences in interest rates.
4. ? discount when you get ready to pay off the seller due to your buyer refinancing or selling.
5. When possible you close the sale the same day you purchase.

Example 2—Subject To Plus Second To Seller

A seller calls you with a house in good condition worth $150,000. There is a due on sale loan for $82,000 with a payment of $855.20 per month, including taxes and insurance. The seller is asking $150,000 cash for the house. Upon questioning, you learn she would consider carrying a second for her equity if she gets a $15,000 down payment.

Asking:

$150,000	
$ 15,000	Down
$ 82,000	Take loan subject to
$ 53,000	2nd to seller

You Offer:

$135,000	Purchase Price
$ 5,000	Down Payment
$ 82,000	Take loan subject to Payment $855.20 PITI ($700 principal and interest + $155.20 taxes and insurance).
$48,000	Second mortgage to seller at 5% for 30 years with 10 year balloon. Payment $257.67 beginning in 3 months Total outgoing payments $1,112.87 PITI ($855.20 + $257.67 = $1,112.87)

You Sell:

$159,900	Sales Price
$ 20,000	Down Payment
$139,900	Land Contract, Trust Deed or Wraparound Mortgage 9.9% with a 5 year balloon. Payment $1,372.60 PITI ($1,217.40 P&I + $155.20 taxes and insurance).

Results:

1. $15,000 instant profit from down payment spread, plus 2 months income of $1327.60 with no payment due.
2. $259.73 per month payment spread.
3. $9,900 when your buyer pays off the loan to you ($139,900 - $48,000 - $82,000).
4. ? large discount possibility.
5. When possible, close the sale the same day.

Example 3—Long Term Wraparound Seller Financing:

Use same problem as example 2 except you buy on wraparound mortgage, land contract or deed of trust so the seller knows their first mortgage payment will get paid. You pay them. They pay their lender and keep the difference. Then you sell the same way.

Asking:

$150,000	
$ 15,000	Down
$ 82,000	Take subject to - $805.20 PITI
$ 53,000	2nd to seller

You Offer:

$135,000	
$ 5,000	Down
$130,000	Wrap, L/C, Deed of Trust
	5% - 30 Yr. – Interest begins in 60 days
	$697.87 P & I
	$155.20 T & I
	$853.07 PITI Total payment to seller

You Sell:

$159,900	
$ 20,000	Down
$139,900	Wrap, L/C, TD
	9.9% - 30 yr.
	$1,217.40 P & I
	$ 155.20 T & I
	$1,372.60 Total payment due you

Results:

1. $15,000 instant profit from down payment spread, plus 2 months free income of $1,327.60 before payment due.
2. $519.53 monthly spread. ($1,372.60 - $853.07)
3. $9,900 when you pay the seller off.
4. ? larger discount possible.
5. When possible, close the sale the same day as purchased.

Target Properties

1. Pretty houses in good areas at median price or above. Low priced properties attract buyers with no money and incur large default rates.

2. Any property where the seller will agree to wait for their money until you cash out or accept payments.

3. Ugly properties with a lot of equity where seller will subordinate so you can raise cash on their house.

High Priced Houses
Vs. Low Priced Houses

If you conduct your business with little or no risk, why not deal in the best houses in the best areas. Here are some reasons why.

1. Better quality tenants and buyers

2. Nicer houses in nicer areas, no junk.

3. You'll make much more profit on all income streams:

    - You'll get bigger down payments because the houses are worth more.
    - You'll get bigger monthly spreads.
    - Much larger back end paydays. The higher values make it easier to negotiate bigger spreads.

4. If you sell with owner financing there's less chance of buyer default because they're in a higher income bracket and have more money at risk.

5. When buying with seller financing you can create larger paydays by discounting the note later.

6. Your friends and relatives will think you're very rich. Prove them right.

Beware When Dealing In Higher Priced Homes

In most markets a home above $250,000 would be considered a higher priced home. We can and should deal in these homes as long as we reduce or eliminate our risk and understand the rules.

1. They'll probably take longer to sell for cash because fewer people can qualify, but offering seller financing will escalate the sale.

2. Never use an appraisal offered by the seller, especially if it was used to refinance. It's almost always unrealistic.

3. Buyers don't want to do any work to upper priced houses. They should be ready to sell and need nothing but decorating to buyers taste. No projects please.

4. If you agree to make large payments, make sure you get large equity. Also, make sure you can make these payments or have a plan to get them made if necessary because you may be doing so before you can sell.

5. On houses above $1,000,000 in most markets selling with owner financing has less effect on the marketplace, but there still is a market. These buyers are programmed to pay cash or get new financing and can qualify. These buyers tend to negotiate, so prepare to give away equity if necessary to move the house, but never do so unless you collect a large down payment.

The Tools For Buying And Selling With Owner Financing

Wraparound Mortgage

An all-inclusive loan encompassing underlying financing. You collect a larger payment from your buyer than you pay your lender. Seller deeds to buyer and takes back a note and mortgage. This must all be prepared by a professional and will vary from state to state.

Land Contract, Land Installment Contract, Agreement For Deed, Contract For Deed, Bond For Deed

All these terms mean the same thing but the name will vary from state to state. Serves the same purpose as a wraparound, but the deed remains with the seller until paid. Buyer has equitable interest in property. This is a very simple process. It's no more complicated than completing a Purchase and Sales Agreement.

Deed Of Trust Or All Inclusive Trust Deed (AITD)

A Deed of Trust is a contract by which title of the property is conveyed to a Trustee for the repayment of a loan who is usually a non-related entity. This contract involves three parties. The Trustor is the owner who borrows from the lender. The Beneficiary is the lender. This document should always be prepared by a professional and varies from state to state.

WE RECOMMEND YOU ACQUIRE GOOD LEGAL COUNSEL ANY TIME YOU ARE PREPARING OR HAVING PREPARED ANY LEGAL DOCUMENT INVOLVING FINANCING A PROPERTY.

Lead/Property Information Sheet

Student ___________________________

Date _________________________ Owner's Name ____________________________________

Source ________________________ Cell Phone ________________Evening _______________

Address ___________________________ ★ Asking Price ____________________________________

City _______________State________ ★ Sellers Estimated Value ___________________________

Area of town_______________________ ★ Your comps ____________________________________

Existing Mortgage Information (must have)

★ 1st - $_______________ Lender ___________________________ __________% Pmt _________

2nd - $_______________ Lender ___________________________ __________% Pmt _________

Is Payment PITI ____Yes _____No Current? _____Yes ____No$____________________ in Arrears

If asking price and loan balance are within $35,000:
Will you sell the house for what you owe on it?
___Yes ___No

If the house has a Mortgage:
If we can agree on a price and we accept all responsibility for future repairs would you consider a lease purchase? ***Yes / No (circle one)***
YES – OK, I'll have my boss call to discuss terms. When is the best time?_______*(**get info below**)*
NO – So you're saying if you don't get full price and all cash you won't sell? ***Yes/No (circle one)***
YES – OK, I understand but that wouldn't make sense for us. Thanks ***(stop here)***
NO – OK, I'll have my boss call to discuss several ways he can buy your home. What's the best time to call?______________*(**get info below**)*

If the house is Free & Clear:
If Yes – Will you consider taking monthly payments for your equity? ***Yes/No (circle one)***
If No – Would you consider a lease purchase making us responsible for all repairs? ***Yes/No (circle one)***
YES – I'll have my boss call to discuss terms. When is the best time?_________*(**get info below**)*
NO – So you're saying if you don't get full price and all cash you won't sell? ***Yes/No (circle one)***
YES – OK, I understand but that wouldn't make sense for us. Thanks ***(stop here)***
NO – OK, I'll have my boss call to discuss several ways he can buy your home. What's the best time to call?______________*(**get info below**)*

How did you arrive at your asking price? ____________________Reason for selling?_________________

Does it need repairs? ________Yes ________No

★ When do you want to move? _______________________Is the house listed? _______________________

Description:

Bed/Bath: _________________ Square Feet: ___________________ Lot Size: _________________

Construction: Frame_____ Brick_____ Block_____ Stucco_____ Other_______________

Garage: 0 1 2 Carport: ____ Basement: ___ Refrigerator _____ Range ____ Dishwasher _______

Is the house Vacant___ Occupied_____Is this a house or a Condo? Yes/No Association fee$___________

Notes:____

____

____

Five Ways To Structure Seller Financing

1. No interest – No payments

2. Principal payments only

3. No payments, accruing interest

4. Interest payments only

5. Amortizing, principal plus interest

Work Hard To Get The Payments As Low As Possible

The two key ingredients in negotiating purchases with seller financing are:

- Low Down Payments
- Low Monthly Payments

If you don't do everything you can to get the payments low, the excitement of a new deal will soon be overtaken by the regret you didn't do better.

One of the biggest advantages of becoming the bank is the free cash flow from the spread on an asset you have no investment to get.

The lower the outgo, the bigger the spread. When you combine the art of getting low outgoing payments with the art of getting larger than normal incoming payments, it's pretty easy to create $1,000 plus monthly spreads per house.

My first choice is no payments with a balloon several years off. My second choice is a monthly principal payment as low as possible.

You're probably better off not doing the deal than agreeing to a high payment. Make it clear to the seller it's not an option and stand your ground.

I'd rather pay a higher price than have a high payment. I'd even pay more down if necessary than yield on the payment. It will come back quickly.

Your goal should be $1,000 or more on each house. Simple math will show it only takes 20 incoming payments to net $240,000 a year.

Now, let's get in the big leagues and see what happens if we dare to deal in the big stuff.

$200,000 House

Purchase	$175,000
Down	$ 10,000
Note To Seller	$165,000

$1,000 mo.

You Sell	$200,000
Down	$ 20,000
Note to You	$180,000

$2,000 month

Monthly Spread $1,000

$1,000,000 House

Purchase	$800,000
Down	$ 25,000
Note To Seller	$775,000

$2,500 mo.

You Sell	$1,000,000
Down	$ 100,000
Note to You	$ 900,000

$6,920 month
(8 ½ % interest – 30 yr.)

Monthly Spread $4,420
Plus $75,000 net cash

Who Will Sell With No Payments Or Interest And Why?

The answer is sellers who need to sell. These are flexible people who need a sale more than payments or interest. The list of reasons can be long.

Usually, debt relief is the most compelling reason and sometimes an urgent need of cash.

For some, a monthly payment is very important, but collecting interest is not.

Sometimes the balloon you offer is short term, so the seller doesn't have to wait more than a year or two.

The big mistake you can make is to try to do the thinking for the seller. You're not qualified and really have no idea what really bugs them, regardless of what they say.

The only way to cut to the chase is to make an offer. Their response will dictate your next move. What will shock you is how little many people care about interest or payments, even the so-called sophisticated ones you'd expect to object.

Your job is to open the door and let them decide to pass or play, not think for them.

If you offer interest, you won't get no interest. If you offer payments, I'm sure they will accept them.

If You Offer Neither, You Might Not Pay Either.

You can always add interest or payments, but it's hard to take them away once you open your mouth. **SHUT UP!**

Here's Why The Banks Have The Big Buildings

Let's look at how your equity builds when you negotiate a no interest loan when you buy and sell at 9% interest.

You Buy

$200,000.00	Note To Seller
$ 800.00	Monthly Payment, Zero Interest

You Sell

$200,000.00	Note To You
$ 1,609.25	9%, 30 Years

EOY	**Outgoing Balance**	**Incoming Balance**
1	$190,400	$198,634
3	$171,200	$195,504
5	$152,000	$191,760
8	$133,200	$184,722
10	$104,000	$178,860
15	$56,000	$158,661

Key Questions To See If The Seller Will Owner Finance Long Term And At No Interest

(This should be done in the home)

OK, I'll give you $_________ per month until you're paid off.

(Simply decide what you want to pay per month and divide the principal amount by the payment to get the term. Don't mention the term unless they ask.)

Q. What about interest?

A. Interest! Why do you need interest? My offer was based on not paying interest. If you need interest, I'll have to take another look, besides, if I pay you interest, you'll have to pay taxes on it. Are you sure you need interest?

If seller insists on interest –

OK, what did you have in mind?

Now's your chance to get something in exchange for interest.

Lower The Price – *If I give you interest, how much can we lower the price?*
***Lower The Payment –** *If I give you interest, how much can you lower the payment?*
***Lower The Down Payment Or None –** *If I give you interest, will you sell with nothing down?*

Script For Negotiating Short Term, No Interest Or Payment

You—I'll take over your debt now and give you ________ when I cash out secured with a second mortgage on your house.

Seller—What about payments?

You—Your house can't afford them. I'll have to make the payment on your existing loan and I won't do this with a negative cash flow. Does that make sense?

Seller—What about interest?

You—If I pay you interest, I'd have to reduce the amount of the second to you. Is interest really that important to you?

Down Payments
Thinking Outside The Box

There are a lot of ways to produce down payments other than writing a check. Here's a list.

1. Credit cards and credit lines.

2. Borrow on your personal or real property.

3. Offer additional collateral on your property in lieu of down payment.

4. Trade any asset for down payment such as car, boat, motor home, mobile home, plane, jewelry, livestock, stocks, mortgage receivables, business, etc. If you don't have it, find out what the seller wants and buy at wholesale and trade at retail.

5. Equity share and cut the seller in for a piece of the profit in lieu of down payment.

6. Find a buyer with a large down payment and close simultaneously.

7. Get a friend to put up the down payment for a 25% return when you sell in a few days.

How To Get Your Seller Some Cash And A Monthly Payment With No Money Down From You

This will only work if the house is free and clear or close. Let's assume you're buying a house for $200,000 and your seller is willing to owner finance, but needs $20,000 cash and at least $800 a month income.

There is actually two ways to structure it—the first is to give the seller a first and a second and sell off the first to raise the cash.

Here's how it works:

Your Offer	$200,000	
1st To Seller	$ 25,000	9 ½%, 30 Year, $210.21 mo.
2nd To Seller	$175,000	$800 mo. Until Paid

Now you sell off the first for $20,436 at a 12% yield and close the sale of the note with your purchase.

The second method is to just give the seller one note for $200,000 at $1,200 a month until paid and sell off part of the payments.

If the seller needs $800 a month, you have $400 a month to sell, so if the seller needs $20,000 it would look like this if your note buyer needs a 12% yield.

N	I	PV	PMT
70	12%	$20,000	$400

Your seller must give up $400 a month for 70 months to get $20,000 cash now.

The note buyer would get priority lien status, do all the paperwork, and approve this deal in about 20 seconds.

Your no down payment is irrelevant to them since they're so well secured. Your seller gets what they want. You get a house with no money down and a huge discount opportunity later.

Here's A List Of National Note Buyers

- Themortgagebuyer.com
- Nationalcontractbuyers.com
- Notenet.com
- Cascadefunding.com
- Notefundingcenter.com

Here's How To Buy With Seller Financing And Cash Out The Seller

Let's say a seller will accept $140,000 cash for a $200,000 house in good condition. Your offer is simple…I'll pay you $140,000, cash but we'll have to be a little unconventional.

I'll write it up at $200,000 purchase with $20,000 down, a $160,000 first to you at 9%, 30 years, $1,287.40 a month. The second will be for $20,000 with no payments and a 5 year balloon. At closing, you will sell your note of $160,000 and assign your second to me and you'll get a check for $140,000 less your closing costs.

If the seller agrees, and they should, you'll have to bring in $20,000, but here's how it will work.

You'll sell the note to SMI.	$160,000
	X 91%
Cash at closing	$145,600
Plus your down payment	$ 20,000
	$165,600
Less sellers proceeds	-$140,000
Cash back to you	$ 25,600

Any debt on the property less than $140,000 will be paid off at closing. The seller will get the difference. This is a good way to liquidate underlying loans.

Reverse Interest Loan

If you can't get the seller to take no interest, this is probably the next best thing. You'll have to create it by hand, but it's easy to calculate if you understand it.

It's laid out so you pay most of the interest at the end of the loan and mostly principal in the beginning, the opposite of amortizing loans.

If the loan doesn't go the distance, and it probably won't, you'll pay little interest. You can always refinance if the payments get too high (never my recommended solution).

Let's assume you're giving the seller a $100,000 note at 5% interest. Here's how it would lay out:

Loan Payment Schedule

Property: 123 Main Street
Loan Amount: $100,000
Interest Rate: 5% ***Term***: 10 Years

Year	Principal	Interest	Payment
1	$10,000	$ 500	$ 875.00
2	$10,000	$1,000	$ 916.70
3	$10,000	$1,500	$ 958.33
4	$10,000	$2,000	$1,000.00
5	$10,000	$2,500	$1,041.67
6	$10,000	$3,000	$1,083.33
7	$10,000	$3,500	$1,125.00
8	$10,000	$4,000	$1,166.67
9	$10,000	$4,500	$1,208.33
10	$10,000	$5,000	$1,250.00

Prepare the schedule on a single page and attach it to your Purchase Agreement as an addendum.

Splitting The Note To The Sellers

Sometimes you'll buy from an estate with multiple owners or a divorced couple who can't stand each other. In this case, your offer to make sure they don't have to do business with each other after the sale may get the deal done for you and fix a sensitive issue.

Let's say a couple has a $500,000 house free and clear and will sell for $400,000 if you put 10% down, but don't trust each other and neither wants to talk to the other.

Your Offer:

$400,000		
$ 20,000	Down	
$380,000	Mortgage With Two Separate Notes	
	Husband	$190,000
	Wife	$190,000

You'll make two payments and hopefully avoid later arguments. I'd get both to sign a satisfaction to put in attorney's escrow so you don't have to chase them when you're ready to pay off.

Structuring Your Seller Financed Purchase For Resale

- Always know your back door(s) when making an offer. The offer to purchase hinges on the method of sale.

- You must get in light. The down payment from your buyer should be much larger than your down payment to your seller. More than 5% down to the seller puts you at risk.

- Don't leave cash in the house when you sell unless you clearly understand your exit and expect to recapture it quickly.

- Property should be in good condition or you're willing to repair at your expense because your down payment from buyer will cover your costs, or you're offering a subordinated offer allowing you to raise cash on the seller's asset.

- Insure monthly cash flow by negotiating low or no interest and low or no payments. This is the only way to get monthly cash flow. Work hard for big spreads.

- Make sure the property is freely transferable upon resale with no seller interference, which means no due on sale clause on your note to the seller.

Subordination

What Is It?

When a seller agrees to take back a second mortgage and allow you to get a new first mortgage without paying them off.

Example:

You get a call from a seller with a free and clear house worth $180,000 after repaired but it needs $15,000 in work. The MAO is $111,000. You agreed to pay $110,000 as long as the seller will take a $10,000 down payment and subordinate the remaining $100,000 at $500 per month until paid. Could add a balloon if you wish.

Now you borrow a $40,000 first from a private lender at 12% interest only payment with a five year balloon.

$ 40,000	New First Mortgage	$400 month
$100,000	Second To Seller	$500 month
$140,000		$900 month

Let's look at our cash at closing, the day we buy.

$40,000	New First
- $10,000	Down Payment To Seller
- $15,000	You Set Aside For Repairs
- $ 2,000	Closing Costs
$13,000	Net Cash To You

What's Your Exit?

Lease Option or owner finance after repairing.

$189,900	Sales Price
$ 10,000	Deposit Or Down Payment
$179,900	$1,500 Monthly Rent Or Payment To You
	-$ 900 Your Payment
	$ 600 Cash Flow

Subordination Twist

Now take the same house and almost the same offer, but change the terms on the $100,000 second to seller to no payments and no interest with a five year balloon.

$ 40,000   New First Mortgage
<u>$100,000</u>   Second To Seller
$140,000

$400 month
<u>$ 0</u> month
$400

<u>Use The Same Exit</u>

$189,900   Sale Price
$10,000   Down Payment
$179,900 - $1,500   Monthly Payment To You
              - <u>$ 400</u>   Your Payment
                $1,100   Cash Flow

Caution – If you have a 5 year balloon to your seller, you must put a shorter term balloon in your buyers note.

Substitution Of Collateral

What is it?

The mortgagee allows you to transfer your mortgage from one property to another (a transfer of collateral).

Criteria?

You must have substantial equity in another property to make it possible. The seller must have a strong motivation to allow it. You should make it worth their while.

Make sure the receiving property is not over-financed or payment too high.

How do we profit?

When cashing out a sale, move the mortgage you owe a seller to another property and pocket the cash. This would now be a great time to sell the highly financed property on a wrap or land contract.

Substitution Of Collateral

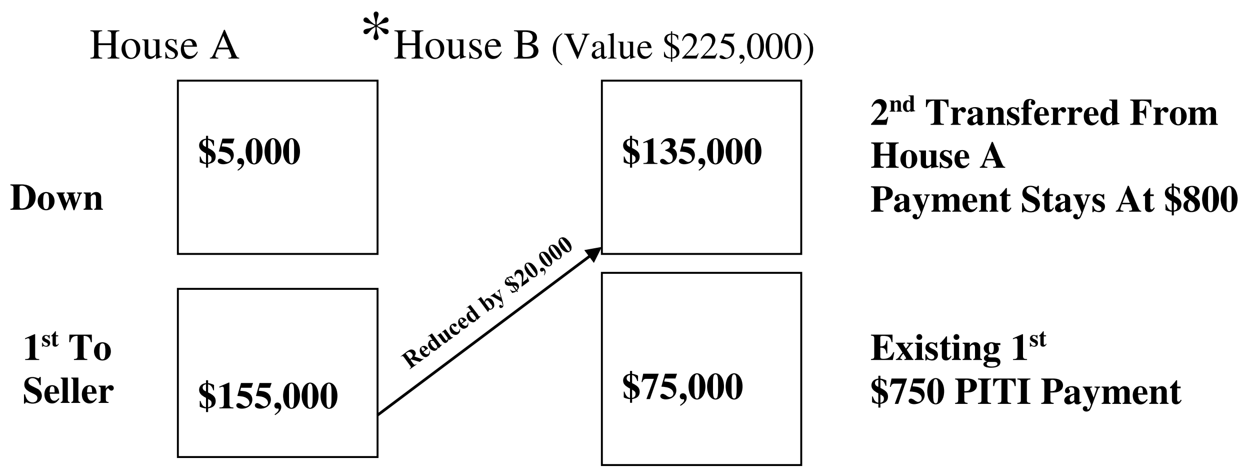
Asking Price $180,000 House A

House needs $5,000 in repairs and will be worth $200,000.

Offer	$160,000	
Down	$ 5,000	
1st to seller		$155,000 - $800 a month with substitution of collateral

Sell House – A – For $200,000 cash

Give seller of House A an additional $20,000 and move mortgage to House B at closing.



Results – House A has no loan to payoff so all the cash goes to you.

- $200,000 Cash sale
- $ 5,000 Original down payment on House A
- $ 20,000 Additional payment to seller for moving mortgage
- $ 2,500 Closing cost of sale of House A
- $ 5,000 Repairs

$167,500 Profit (actual cash received $177,500) ($200,000 - $20,000 to seller - $2,500 closing)

($135,000 is tax deferred because it's still borrowed money)

Results– House B

$225,000 Value

1st	$ 75,000 -	$ 750 mo. PITI
2nd	$135,000 -	$ 800 mo.
	$210,000 -	$1,550 PITI

This may be a good time to sell House B for $229,000 and wrap the underlying debt.

*You may move the $135,000 to several properties with smaller equities and break it up into several second mortgages.

Why Would The Seller Substitute The Collateral To Second Position?

1. $20,000! That's plenty reason.

2. Because you asked and you've kept your word in the past.

3. Because you've given him no reason to believe he'll get paid off in full. If you do, you probably won't get a yes.

What If He Won't Say Yes?

1. Offer more money.

2. Raise the amount you owe.

3. Raise his payments.

4. Shorten his term.

5. Get a big discount and pay him off at closing.

6. Throw in boot like a car, boat, motorcycle, trip to Disney World or your vacation rental, use of your time share.

Script For Requesting Substitution Of Collateral

"Mr. Seller, could you use a little extra money right now? If you're OK with it, I'd like to transfer the mortgage I owe you on ___________________________ street house to a house I own at 123 Main St. You'll be in second position behind a $75,000 first, but I'll leave the payment at $800 and still owe you _____________ payments, and I can give you $20,000 cash now if you'll approve the transfer. How does that sound?"

Answer only questions you're asked.

Notice Of Substitution Of Collateral

The undersigned, herewith files this "Notice of Substitution of Collateral" notifying all interested persons and Parties that from this date forward the mortgage dated the ____ Day of ________________, 20____., and recorded under Clerk's number _________________. To substitute the collateral therein described as the security for said mortgage to the real property more particularly described as:

Hereinafter, the real property currently described in said mortgage and note are forever released from the lien of this mortgage, the lien of same is herewith transferred to the real property described hereinabove.

IN WITNESS WHEREOF, I have set my hand and official seal on the ____ day of ________________, 20____.

Signed and sealed in our
Presence as witnesses:

___________________________________ ___________________________________

____

STATE OF ______________________
COUNTY OF ____________________

BEFORE ME appeared ______________________________________ who is personally known to me (or) provided proper identification to be the individual described herein and who executed the foregoing instrument, and acknowledged to and before me that he/she executed the same for the purposes therein expressed.

WITNESS my hand and official seal the _____ day of ________________, 20_____, at County and State aforesaid.

____
NOTARY PUBLIC, STATE AND COUNTY AFORESAID

My Commission expires:

Here Are Some Money Making Clauses To Add To Your Offer When You Buy With Owner Financing:

You will never use all of these clauses on any one deal. They are listed below to scan as you're making the offer and apply when possible.

1. Delayed Payment

   Interest will begin in ____ months and the first payment is due ____________.

   This will buy you several free months of payments by adding one sentence.

   OR

   In case of no interest loans bearing monthly payments:

   The first payment of ____________ will be due on ____________ and on the ____ day of the month thereafter for ____ consecutive payments until paid in full.

2. First Right Of Refusal

   The maker of this note will have the first right of refusal to match any bonafide offer received by the seller to purchase all or part of the payments.

This will ensure if anyone offers to buy the note at a discount, you'll get the chance to do so yourself. No professional note buyer will do so until you waive that right.

3. Discounts

   If this note is paid off within the first year after closing, the maker will receive a ____% discount of the principal balance. If paid off in year two, the maker will receive a ____% discount and year three a ____% discount.

   This clause will insure you get a discount before you even buy the property.

4. Satisfaction

   Seller will execute a satisfaction of mortgage at closing to be held in buyer's attorney's escrow to be recorded upon full payment of this note.

This will keep you from chasing the seller upon payoff, unless they die in the interim. Your attorney will prepare the escrow agreement or advise against. Follow his advice.

5. Subordination

   Seller will carry a second mortgage in the amount of $________ with no payments or interest to be subordinated to a new first mortgage initiated by buyer.

   OR

   Seller will carry a second mortgage in the amount of $________ with monthly payments in the amount of $________ beginning 90 days after closing in ____ equal installments until paid in full. This mortgage will be subordinated to a new first initiated by the buyer.

6. Substitution Of Collateral

   Buyer reserves the right to substitute collateral at any time in the form of a first or second mortgage, as long as the equity in the substituted property is of equal or greater value than the equity in the seller's property. Seller will execute a Notice Of Substitution Of Collateral within three business days upon request of buyer.

Caution

These clauses are meant to be placed in your purchase agreement. Your attorney will want to modify them to add to the actual closing documents. If you clarify the intent, he/she will handle the legalities.

Discounting Seller Held Mortgages And Trust Deeds

Wherever there is seller-financing lies the strong possibility of a discount. Never pay off a seller held loan without asking. Always take over the loan when buying if it already exists so you can discount it later. Don't pay it off at purchase if you can avoid it.

When you're ready to sell or refinance the property is when you'll usually want to negotiate the discount.

Never let the mortgage holder know you're selling or you'll lose your leverage. They have no reason to discount if they know you're about to cash out.

Here are some reasons you may use to ask for a discount:

1. I'm coming into some cash within the next two weeks and I'm trying to decide what my best use is for it. Remember, I'm in the real estate business and capable of getting huge returns on my capital, so I'd have to have a large discount to throw the cash your way. If I paid you off now, what's the least you'd take for all cash?

2. We've got a problem and I need your help. The property I bought from you is a negative cash flow and the only way I can keep it is to pay off the loan to you and reduce the monthly outgo, and to make that work I'd have to get a big discount to be able to borrow enough. What's the least you could take if I were to do so?

3. (Hard Nose Close)
   Mr. Seller, it comes down to this. I'm simplifying my life and most of my properties have to go, or my wife will. I can either get your consent to pay your note off at $__________ or I can give you the property back. If you'll recall the note is not personally guaranteed, so I'll let you decide if you want the cash I can offer you or if you'd rather have the property back. Please give it some thought and let me know your decision.

<u>Note</u>

You won't get private lenders to discount except in cases of default. This only works in seller carry back notes.

Should You Buy Houses With Small Equity With Seller Financing?

The answer is maybe. It depends on the interest rate and payment on the underlying mortgage.

If the payment is high and you can't make a spread, you probably won't wrap it. If the payment is low and you can see a sizable spread, you probably will.

<u>Example</u>

ARV	$200,000
Mortgage	$175,000 – 8 ½% – 30 Years
Payment	$1,345.60 P&I

You can easily get more from a buyer at a higher rate, but not much. If you raise the rate to 9 ½% on the $175,000, the payment is $1,471.49. You'll have to decide if the responsibility, accounting, etc. is worth it to you for the $126 a month.

Now let's assume the underlying loan is at 6%. The payment would be $1,049.21. So if you charge 9 ½% and get $1,471.49 it's a no brainer with a $422.80 spread.

If you've made a promise to the seller to make their payments, you should wrap both examples above to protect their interest.

When Buying On A Wrap, What Could Go Wrong And How Do I Fix It?

The bank could call the loan due. Your options are:

- Ask your seller to sell the note and pay off the bank. Get them in touch with SMI.

- Show the bank you're the buyer and ask them to stop the action. Don't let them talk you into assuming the loan.

The seller could collect your payment and not make the underlying:

- All wraps or land contracts should have a provision for you to make them and penalize the seller. Simply do so and pay the bank directly from that point forward. Your attorney should handle the notice to seller.

What If My Seller Files Bankruptcy After I Buy

If you buy a house with any kind of seller financing and then the seller files bankruptcy, you still own the house. If you're wrapping a due on sale loan, the seller will likely name the loan in the bankruptcy, but that doesn't necessarily jeopardize your position. If this occurs, the only action for you to take is to hire an attorney to represent your interests. The court will likely order your payment made to the trustee.

One of three things will happen:

1. You (your attorney) can petition the trustee to release the property on the grounds the seller doesn't own it and you are paying the creditor. This should be a simple and inexpensive process if there are no complications.

2. The bankruptcy will end on its own accord.

3. The seller can stop the bankruptcy or remove your house if they wish, since they have no equity. If they do, it's up to the court how to handle it, but it will likely end in your favor.

If you've already sold the house and your buyer gets notified, immediate action will be required on your part to put your buyer and your attorney together to assure them they will not lose their house.

Unless they are ready to cash out during this process, it doesn't affect their rights. Nothing will change on their end.

If they are ready to cash out, your attorney will notify the trustee you're ready to pay off the creditor and the trustee should allow it to take place. In a bankruptcy, secured creditors come first. Your seller's lender is a secured creditor.

If this ever happens to you, don't overreact. It's just due process. The sky is not falling.

What Is A Dealer?

The IRS definition of a real estate dealer is:

Anyone who buys with the intent to resell.

The reality is everyone buys with the intent to resell. We just don't know when. The intent of this rule is to apply to those who are in business to buy and sell immediately as their chief occupation.

That definitely includes you if what we're teaching in this class dominates your business and you don't have a job or other profession.

Here's why you never want to be a dealer:

1. You lose installment sale taxation.

2. You lose long term capital gains.

3. You lose depreciation.

4. No 1031 exchanges.

5. You must pay a self employment tax on your net income (about 15%).

Here's how to mitigate the risk of ever becoming a dealer.

1. Never do business in your name. If anyone gets named a dealer let it be an entity, not you. That entity can then be shut down and you can form a new one.

2. Mix some keepers with your flips you sell on installments. This makes a case your entity is an investor, not a dealer.

3. Do installment sales in several entities so as to spread the load. Each will have its own tax return and K-1 to include in yours. It wouldn't hurt to change ownership and control on some with your spouse and maybe other family members.

4. Have other businesses so it's obvious real estate flipping isn't all you do.

This is not a major concern for you unless you really turn it into a large business, at which time your attorneys and CPA will advise you on the best plan.

Caution

Never let your CPA call you or your entity a dealer. This is grounds for termination to me because it will be hard to rid yourself of the stigma and there is no reason for him to do so.

Seller Financing Test I

1. Name three advantages of buying with seller financing.

    ____

    ____

    ____

2. Name one reason to do a wrap around an underlying loan of the same amount.

    ____

3. What are the three basic tools (financing documents) used to buy or sell with owner financing?

    ___________________________________ Mortgage

    ___________________________________ Contract

    _______________________ Of _______________________

4. What's the best kind of seller financing?

    ____

5. What are the two main ingredients you should focus on when buying with seller financing?

    _______________________ and ______________________

6. Name two ways to raise down payments other than writing a check:

   ________________________ and _______________________

7. What is subordination?

   ____

8. What is substitution of collateral?

   ____

9. When buying a house with small equity, what's the key ingredient we discussed that should influence your decision to do so?

   ____

10. Define a real estate dealer.

    ____

    ____

    ____

Selling With Seller Financing

Advantages When Selling With Owner Financing

1. Minimal qualifying.

2. No requirements for seller to own property for 6 months or a year.

3. Quicker than conventional financing. Close in 3 days.

4. You can hold the note until you need cash and sell out anytime. It's a liquid asset producing passive income.

5. You're taxed on installment sale until you sell the note.

6. You have help structuring the deal on the other end of the phone.

7. Easy to attract prospects with owner financing.

8. You'll probably get a free second mortgage you can use in numerous ways and get full face value when you learn how.

Can I Sell With Owner Financing And Wrap A Due On Sale Loan?

Yes, but only if the buyer receives a CYA letter and signs it in front of an attorney and accepts the risk.

What If The Lender Calls The Loan?

1. You can sell the note for cash and pay off the lender.

2. You can negotiate with the lender and change their mind.

3. You can help your buyer get refinanced, even if not the full amount, and take back a second if necessary.

4. You can hire an attorney and sue the lender and probably force them to come to terms.

Do I Sell With Owner Financing Or Lease Option To Tenant Buyer?

The following contains some guidelines to help you decide:

- If you own the property, you can do either. If you have lease optioned from seller your only exit should be sub-leasing or cashing out now.

- You'll get a bigger down payment from a sale than a deposit from a lease.

- If you own the property and lease it, you can depreciate it for a tax deduction. <u>You can't depreciate a house you don't own</u>. If depreciation is a concern, you'd be better off retaining ownership and leasing.

- If repossession takes more then a couple of months, you should strongly consider leasing instead of selling with owner financing. The harder it is to foreclose, the more reluctant you should be to transfer ownership. It's usually easier to evict than to foreclose.

- If your buyer does not have enough of a down payment to make you feel comfortable, (at least 10%), you may wish to lease until they do and then owner finance.

- If you have guaranteed the loan, you should lease and eliminate the risk of the lender calling the loan due, or you may sell with owner financing if you structure it correctly so you can sell the note to SMI if necessary to pay off the underlying debt.

- If you sell you'll lose appreciation, depreciation and probably long term capital gains, but you get no repairs, property taxes, insurance or vacancies to deal with.

When Is It Best Not To Sell On A Wrap?

Let's assume you get a call from a seller who has a $200,000 house with a $160,000 first with a $1,588 payment that's four behind. He'll give you the house since it's vacant, his credit is shot, he's living with his mother and his wife divorced him. He wants $1,000.

You could wrap the house for about $200,000 and get a down payment and bring the first current and continue to make payments until you're cashed out.

Another alternative is much simpler, with no costly entanglements. Simply sell the house to a new buyer, get as much cash as possible, let them take over the first subject to and you take back a second for the balance.

Example

Sale	$200,000
Down	$ 20,000
1st Subject To	$160,000
2nd To You	$ 20,000

This works because the person you bought from had bad credit, so your responsibility to protect it doesn't exist and the underlying payment is so high you'd have difficulty creating a monthly spread on a wrap.

If you've made no promises and there's no long term benefit to wrap, it may be best to eliminate the collection hassle and get out.

How you construct the second is not important. It could be with no payments and a five year balloon. It's free money! You were really after the $20,000 down.

Don't forget the payments must be brought current from the proceeds.

Qualifying Your Buyers

There are only a few things I care about when choosing my buyers. Great credit is not on that list. Good credit is not required; in fact, the lack of it is what will attract most buyers to you.

However, atrocious credit is a concern and you should not sell until you know what their credit looks like. A long history of evictions and/or foreclosures will eliminate your buyer, regardless of how big the down payment.

Nowadays, anyone can go to Freecreditreport.com and pull their own, or you can get your mortgage broker to do it for you for free.

The other considerations are:

1. Income—If they can't afford the payment, you shouldn't set them up to fail. Use a 50-50% total debt ratio as a gauge. Beyond that is almost certain default. Note this does not include items like insurance, food, recreation, medical bills and a long list of other monthly expenses. That's why a 50-55% cap is important. A home is not their only expense. Even then, you must apply common sense and a little math. Someone making $2,000 a month cannot afford a $1,000 house payment; therefore, 50% won't apply. Someone making $10,000 a month may afford a $3,000 payment, but only if their other fixed expenses are below $2,000, because after income taxes and non-fixed costs are added, it doesn't leave much to live on.

2. Down Payment—This is at the top of my list and the easiest qualifier. I will not sell for less than 10% down, and you can get much more than that on nice houses if you're patient. This is your front end profit center and the easiest money you'll make in real estate. Don't underestimate it. This is the number one qualifier.

3. Criminal Record—It's easy to get a report on your buyer to look for undisclosed issues, such as a criminal record. Use FindTheSeller.com or an investigative service for small money. You can't learn too much, and from there common sense will guide you.

4. Size Of Family And Pets—A family with 6 kids and four dogs can only mean the house will take a beating. You have to assume you'll get it back, so are you getting enough down to justify the risk?

Your Next Step

- ☐ **Yes, I like this home!**
- ☐ **No, I'm not interested in this home. I'm forwarding this form and the application. Please call me with other homes you have available.**

It's **FREE**, **it's EASY** and there is **NO Obligation** to find out if we can work together to make this your home and all you have to do is fill in the blanks below and get the application(s) along with this form to our office right away! In most cases, you'll have an answer **TODAY!** What do you have to lose? Stop thinking about buying a new home and do it today. Your friends will be green with envy when you tell them you just got the deal of a lifetime on a new home and you didn't get hassled by a mortgage broker, Realtors, closing attorneys or anyone else. Our investors want to sell this home and will pull out all the stops (as long as they are legal, moral and ethical) to sell you this home **TODAY!**

Don't Snooze & Lose!

To get an answer today, we need to have the following information:

Your Name ______________________________________Phone # ______________________

1. How much money do you have as a down payment today? $_________________________
   (We can work with tax refunds, equity in other homes, bonuses, future settlements, retirement funds, 401K, etc. and we take personal property you may want to trade such as cars, boats, RV's, motorcycles, trucks, etc.)
2. What additional down payment funds will you have available throughout the year? $_____________________
   (i.e. tax refunds, bonus checks, 2nd job commission, insurance claims, lawsuit settlements, etc.)
3. What date do you want to move in? ______________________
4. What do you need your monthly payment to stay under? ______________________
5. Is your credit _____Good _____Fair _____Ugly Credit Score ___________

Please complete the information requested above and return this note with your application/s.

You can return your application to us four ways.

1. Fax to us at 770-555-5555 (No cover sheet needed and if you do not have a fax, most grocery stores will send it for you) Please call us to verify we got all the pages.
2. Drop it off at our office. Please give us a call if you need direction tour office. We're located just 2 minutes from I-85 in the Carter Center office complex at 5555 **Jimmy Carter Blvd. Norcross, GA 55555.**
3. Mail it to us at the above address.
4. Call 770-555-5555 with the information.

Please be aware faxing is preferable because we accept applications on a 1st come 1st serve basis. We can usually let you know if your offer is accepted the same day we receive it.

Thank you so much for your interest in this home. We look forward to overcoming any obstacle standing in the way of you and your new home.

Applicant Information Sheet

Primary Applicant (A) **Joint Application (B)**

Property Address: ____

Name: ______________________________ Name: ______________________________

D.O.B.: ______________________________ D.O.B.: ______________________________

S.S. No: ______________________________ S.S. No.: ______________________________

Drivers License No.: ____________________ Driver's License: ______________________

Home Phone: _________________________ Home Phone: _________________________

Street Address: ________________________ Street Address: ________________________

City: _________________________________ City: _________________________________

How Long At This Address: ______________
(Month / Years)

EMPLOYMENT:

Employer's Name: ______________________ Employer's Name: ______________________

Employer's Address: ____________________ Employer's Address: ____________________

______________________________________ ______________________________________

Work Phone: ___________________________ Work Phone: ___________________________

How Long On Present Job: ________________ How Long On Present Job: _______________

Gross Monthly Salary: ___________________ Gross Monthly Salary: ___________________

Other Monthly Income: ___________________ Other Monthly Salary: ___________________

Source: _______________________________ Source: _______________________________

By my signature below I hereby give my permission for the lender to investigate my credit and employment history and I authorize release of all credit related information to them.

____
Signature

Date:_____________________

By my signature below I hereby give my permission for the lender to investigate my credit and employment history and I authorize release of all credit related information to them.

____
Signature

Date:_____________________

Buyer's Objections

How Do I Know You'll Make The Underlying Payment?

I'll have an escrow company collect yours and pay mine, so if you pay yours, mine will get paid. They'll send you a 1098 at year end.

What If I Can't Refinance By The Balloon Date?

We'll work it out based on your circumstances at the time and it will depend on how well you keep your promises between now and then.

Why Is The Late Penalty So High?

Do you intend to be late?

No!

Well then it shouldn't be an issue, should it?

What If The Bank Calls Your Loan Due?

There are several ways to resolve this issue, including getting you financed or I can sell your note to pay them off or simply persuade them to cease. I'll work it out, but you should know that it's a very remote possibility and frankly after we establish a track record of them accepting my payments, they have little or no real legal grounds to do so. However, it's still a possibility and there will be a disclosure to that effect at closing.

Work Hard To Get Big Down Payments

The size of the down payment you collect will probably be the difference between a good and bad deal and will certainly dictate your cash flow.

If you give yourself plenty of time to make payments when you buy, your back is not against the wall to sell. If you can't get several months with no payments, you should prepare to make one or two to give yourself time to play the market.

Accepting the first buyer to come along to cover a payment can be a costly mistake and lead to bigger problems than you fixed.

Better To Have A Vacant House Than A Non-Paying Occupant.

If you accept small down payments, you **WILL** have to fix the problem later and you **WON'T** get paid as agreed.

Violate this rule and you're going to a seminar.

Here are some guidelines when buying to help you sell to the right buyers:

1. Stay away from the cheap stuff. Cheap houses means cheap, broke buyers. Buy at median price or above so you attract the best buyers with money.

2. No problem houses if you expect to attract money. Repairs may be okay, but odors in the neighborhoods, functionally obsolete houses, gas station next door, one bedroom or one bathroom houses, etc., are problems. If you are turned off, so will your buyers with money.

3. The nicer the house, the easier the sale and the higher the price, the more important this becomes.

Helping Your Buyer Raise More Down Payment

Here are a few things you can discuss to get all you can on a down payment:

1. Do you have money in an IRA or 401K?

2. Can you get cash on your credit cards or credit line?

3. Can you borrow from family or friends?

4. Do you have anything to trade: car, truck, boat, RV, mobile home, stocks, bonds, gold, jewelry, time share, other real estate, motorcycle, receivables, inventory, script from your business, etc?

5. Are you getting a tax refund or any lump sum settlements?

6. Do you have a skill I may use to help you work off some down payment: roofer, plumber, carpet layer, other contractor, etc?

Here's A Tip If You Accept Anything On Trade

You should not give a credit for full face value if you accept real or personal property on trade. You can't sell it for face value, so you're entitled to a discount. How much is up to your negotiating skills.

When taking real estate, you should have it appraised and give no more than 50% of the value of the equity, especially if you're taking over debt in the deal.

You have every right to make a profit on trade-ins and shouldn't feel bad about doing so. Remember, it's you that will liquidate it and usually the desire to buy a home is much more important to your buyer than equity in their asset.

What other seller do you know that will be this flexible and make it so easy to buy?

Why Getting Big Monthly Payments Is Important

There's more than meets the eye that goes into a decision about when an incoming monthly payment is acceptable. Obviously, more is better and the larger the payment, the bigger the cash flow.

But the size of your receivable monthly will also determine the value of the note if you wish to cash out.

The interest rate you charge is irrelevant to a note buyer. What is critical to them:

- Size of monthly payment
- How many you want to sell
- Their investment to value
- Collateral quality
- Buyer's down payment

Let's say you're taking back a note. In one example, your incoming payment is $2,000 and the other example it's $1,500. Both have 240 payments remaining and the note buyer is looking for a 14% yield. Let's see how they compare.

Note Amount $200,000

N	I	PV	PMT
240	14%	$120,625	$1,500
240	14%	$160,833	$2,000

That's a $40,000 difference in today's cash, with only a $500 difference in payment.

To me, the large monthly payment is worth more that the interest rate. You can use a low rate to entice buyers, but the downside is you'll have to shorten the term to keep the payments high. That won't matter if you intend to sell off the note or if the buyer refinances in the short term, which you can insure if you add a balloon.

Here's A Way To Lower The Payment For Your Buyer

Sometimes a buyer will have a big chunk of cash but want a lower payment than you can offer with a principal and interest payment with a normal amortization.

As long as you can cover the underlying payment and then some, it's irrelevant whether you're collecting principal and interest or just interest only or even if you're not collecting all the interest.

Let's say you're selling a $500,000 house with $50,000 down and receiving a $450,000 wrap at 8 ½% interest. At 30 years, the payment would be $3,460.11 P&I.

You have an underlying loan with a payment of $2,500 P&I. However, your buyer just can't live with a payment above $3,000 and you do some calculating and discover that even at interest only payments it would take $3,181.50 a month.

That's okay! Simply tell your buyer you'll do it at $450,000, 8 ½% with a $3,000 a month payment toward interest. That means he/she would have a $187.50 a month negative amortization and owe you more at the five year balloon than $450,000. Actually, the amount would be $461,250, which shouldn't be hard to sell.

This way, you didn't lower your rate to make the payment work. You did decrease your cash flow, but save a $50,000 down payment in the process.

Caution

You must be exempt from Dodd Frank 2010 to make this work. A negative amortization is not permitted.

Should You Add A Balloon?

The answer is yes. Here's why:

1. If you don't add a balloon, your only exit from the note is to wait until the buyer refinances or sells.

2. If you add a balloon, you have leverage when it's due to call the full amount due and payable, or extend it with or without a fee.

3. Adding a balloon may increase the value of your note if you choose to sell it.

Caution

Whether buying or selling, nothing can be added to a mortgage, land contract or deed of trust unless it's disclosed in a purchase and sales agreement. This includes any special clauses, balloons, unusual late penalties, collection clauses, etc.

You must be exempt from the 2010 Dodd Frank legislation to add a balloon.

Can We Wrap An ARM?

Yes you can! By applying common sense, you will simply have your attorney add language to your incoming mortgage that the payments will adjust the same amount and at the same time as the underlying loan.

This may be a little harder to sell your buyer, but certainly fixable if the objection arises.

You won't do the wrap unless you have a good monthly spread, so here are your choices:

1. Leave the buyers loan fixed and absorb the increase. It will eat at your spread, so you'd add a shorter balloon than normal, i.e. two or three years.

2. Cap the incoming payment to satisfy the buyer and add a provision the buyer will have a choice of absorbing any increase above the cap or six months after your outgoing payment exceeds the cap to pay off the entire balance.

3. Add a provision that any reduction in your monthly spread will be added to the purchase price at the same interest rate as the note so you collect it when you get cashed out.

Don't lose a good buyer just because you inherited an ARM. Fix it so the buyer is happy.

Don't worry about the language. That's your attorney's job. All you have to do is write down the agreed solution in your words and let the buyer initial and make sure your attorney understands your intent.

Selling On A Wrap With A Split Note

Value	\$150,000
Existing First "Subject To"	\$ 90,000
Existing Second	\$ 20,000
Give Seller	\$ 10,000
Your Purchase Price	\$120,000

You Sell The Home:

(And split the note so you don't lose the high ITV second.)

\$159,000
\$ 20,000 Down
\$139,900 Wrap
\$128,000 First (80% Of Value)
\$11,900 Second

You Sell One Note And Keep The Other:

		\$135,000
	X	91%
	=	\$122,850
	-	\$ 90,000 Underlying 1st
	-	\$ 20,000 Underlying 2nd
	Net	\$ 12,850
Down Payment From Buyer	+	\$ 20,000
Note From Buyer	+	\$ 11,900
Less Down Payment To Seller	-	\$ 10,000
Net To You	=	\$ 34,750

You can be in and out very quickly with no rehab to do or costly entanglements. Don't forget to try to discount the underlying loans before paying off if they are in default or seller carry back notes.

How To Construct Second Mortgages To You To Help Your Buyer Afford The Payments

There are several things you can do to help your buyer reduce their payment when you're taking back a second and getting them a new loan for less than the sales price.

Example

You Sell	$200,000
Buyer's New Loan	$170,000
Down Payment	$ 10,000
2nd To You	$ 20,000

Your main objective is getting the $180,000 cash. The $20,000 second is a free gift, and if debt ratio or income will prevent your buyer from qualifying, you can get flexible on how you collect the $20,000.

1. *No payments with accruing interest and a balloon later.
2. *Partial interest payments with a balloon.
3. Delayed payments with interest accruing and P & I payments to begin in a year or two.
4. Take something in trade worth $20,000 or more. The lender will accept as down payment.
5. Let the buyer work off the note.

***Must be exempt from Dodd Frank.**

What You Can Do With The Second Mortgages You Receive From Your Property Sales

Anytime you sell a house with owner financing and carry back a second, it should be free to you. That means you should have retrieved any cash you laid out and made a cash profit in addition. If that's not the case, there was a flaw in your deal. Most likely you paid too much for the house.

When you get these notes, there is nothing that says you have to sit back and collect payments. There are alternatives. Here are a few:

1. Trade the note for personal property, i.e.—car, truck, boat, R.V., mobile home, etc.

2. Put several notes together and trade a package for other real estate or trade one or two for the down payment on a house.

3. Use your notes for collateral in lieu of down payments to sellers who are more concerned about safety than cash up front.

4. Pay off some of your debts with your notes.

5. Pool your notes and borrow against them.

6. Offer a discount to the person making the payments to cash you out.

7. Add a note as boot to a buyer of one of your hard to sell properties.

8. Donate to charity for a tax "write off" of face value.

9. Give to your parents or children to help them build cash flow.

10. Get your buyer refinanced and cash out at full value.

Hypothecation

This is a fancy word that simply means borrowing against receivables.

Instead of selling a note you receive, another option is to use it for collateral for a loan. How much you can borrow will depend on the quality of the note and your strength. The amount can range from 50-75% of the face value.

The lender will want a full package on the note, which you should have anyway, and it shouldn't take more than a few days to get the money.

This works well when you package several notes and it reduces the lender's risk if one defaults.

Seller Financing Test II

1. Name three advantages of selling with owner financing.

   ____

   ____

   ____

2. If you sell on a wrap around a due on sale clause name two solutions if the loan is called due.

   ____

   ____

3. When is it best not to sell on a wrap?

   ____

4. What's the number one qualifier we discussed when prescreening a buyer with owner financing?

   ____

5. Name two ways to help your buyer get more down payment.

   _______________________ and ______________________

6. Should you add a balloon to your incoming notes?

   ____

   Why? ____

7. If you wrap an ARM, name one way to satisfy a buyer's concern about increased payment.

   ____

8. Name two ways to construct an incoming second mortgage to help your buyer afford the total monthly payment.

   ____

   and ____

9. Name three things you can do with second mortgages you receive.

   ____

   ____

   ____

10. Define hypothecation.

   ____

Calculating The Value Of A Balloon Note

Let's use our previous example of a $200,000 note with 240 payments left at $2,000 a month. That would put the interest rate at about 10 ½%.

Now, let's add a 5 year balloon and see what happens to the present value at a 14% yield.

It will take two calculations, one for the 59 payments and the other for the remaining present value of the balloon amount:

N	I	PV	PMT	FV
59	14%	$84,957	$2,000	

Calculate the balance due on the 60th payment:

N	I	PV	PMT
181	10 ½%	$181,343	$2,000

Now calculate the present value of a note due in 60 months with a $181,343 payoff and no payments until then:

N	I	PV	PMT	FV
60	14%	$90,418	$0	$181,343

Now if we add the present value of the 59 payments ($84,957) to the present value of the balloon in 60 months ($90,418) we get a total of $175,375 at a 14% yield.

In our previous example where we sold the whole note at the same yield without a balloon, the present value was only $160,833.

The sooner a note buyer gets back their money, the more the note is worth.

What If I Don't Intend To Sell Off My Mortgage When I Sell A House With Owner Financing?

Split the note anyway. You never know what the future will hold, so you should structure the sale as if you may want to someday. This also gives you the freedom to creatively use the seconds and still keep the first.

If you later sell the note, you'll wind up giving away the top portion because the ITV (Investment To Value) will be too high.

It also helps lower the payment to your buyer if you elect to structure the second with very low or no payment to you.

Figuring Monthly Payments On Escrowed Loans When Selling With Owner Financing

When you buy a house and take over a mortgage with taxes and insurance escrowed and then want to sell it on contract, you must collect the same amount for T & I as you're paying the existing lender. You cannot charge more. You're only a pass through.

Example

$100,000	Existing Loan
$ 950	PITI Payment
$ 800	Principle And Interest
$ 150	Taxes And Insurance

Now you want to sell on Land Contract for $130,000 with $15,000 down and take back $115,000 in payments. You decide 9.9% is a good rate and 30-year financing is normal. Get out your financial calculator and put in $115,000 PV (present value), 9.9% I (interest) 360 N, (number of months) and solve for payment (pmt). Your answer is $1,000.72.

But that's principal and interest, so you must add the same amount of taxes and insurance to the incoming payment as you're paying on the $100,000 underlying loan.

So $1,000.72 plus $150 gives you a total incoming payment of $1,150.72.

You Collect	$1,150.72
You Pay	$ 950.00
You Net	$ 200.72

Most sellers have paperwork showing the payment breakdown so you can see the amount paid into escrow. If they don't, simply look at their note to determine the principal and interest and subtract that from the amount the seller is paying. That's how much you must collect from your buyer.

If you don't have the note, any title company can produce a copy while doing a title search.

Work For Equity

This is an exit strategy designed to sell a house in need of repairs at retail price allowing the owner occupant buyer to complete the repairs at his/her expense in exchange for some equity.

Example

$150,000	After Repaired Value
$ 15,000	Repairs needed if you do them. About $3,000 if buyer does them because they only need to buy materials since they're doing the work and they won't do the degree of repairs you would to retail.
$90,000	MAO
$70,000	Your Purchase Price ALL Cash

Your Exit Strategy

$100,000	Private Loan To Buy – (12% - Int. Only, $1,000 Mo.)
$ 15,000	Escrowed For Repairs
$ 70,000	Cash To Purchase
$ 15,000	Cash At Closing (Less Costs)

Sell On Lease Option Or Owner Financing, Work For Equity

$135,000	As Is
$ 5,000	Deposit Or Down Payment
$130,000	Due You At Closing Or Refi
$ 1,200	Rent To You

Results

1. You buy property with none of your own money.
2. You get $15,000 out of repair escrow as soon as tenant repairs house and $15,000 at purchase closing.
3. You get $5,000 from tenant up front with $1,200 first month's rent ($6,200). If you sell the same day you buy you keep the $1,200 because your first payment isn't due for 30 days.
4. You get $30,000 when tenant buys or refis ($130,000 - $100,000 private loan.)
5. Your monthly cash flow is about break-even if you add taxes and insurance.
6. You get future deposits if tenant defaults and possibly some free repairs.
7. You have no holding costs if you lease or sell quickly.
8. Most of the closing costs will pass to your buyer.
9. No contractors to jerk you around or create costly delay.
10. No repairs to do after the sale.
11. At least 50% more net profit.
12. You're freed up to do more houses because you don't have to repair or suffer delays.

Net Profit Comparison Of Work For Equity To All Cash Sale Immediately

	All Cash Sale Now	Work For Equity
Sale Price	$150,000	$135,000
Purchase Price	--$ 70,000	--$ 70,000
Repairs	--$ 15,000	0*
Interest 6 mo.	--$ 6,000	0**
Misc. Costs	--$ 10,000	--$ 2,000***
Net Profit	$ 49,000	$ 63,000

* Tenant or buyer does repairs and buys materials

** You will pay interest on WFE but it's covered with rent or payment.

*** When holding an empty house you must pay taxes, insurance, utilities, maintenance and you'll pay more in advertising to find qualified buyer and more in closing costs when you deal with picky buyers.

Note

If you lease option for more than a year, you'll qualify for long term capital gains and pay half the taxes.

Your Cash Flow Analysis Of Work For Equity Example

1.	Loan closing	$15,000
2.	Release of repair escrow	$15,000
3.	Day you lease	$6,200 ($5,000 & $1,200 rent)
4.	Day you cash out	$30,000
	Total Cash	$66,200 (Less $2,000 in costs)

Cash Flow Analysis Of All Cash Now Deal

$49,000 the day of sale and not one dime any sooner.

Results – Over 30% more profit.

This doesn't include forfeited option deposits along the way which will add additional income. You can expect less than 50% of these buyers to actually cash you out.

Work For Equity Program

Q & A

What are the qualifications? You must have the ability to complete repairs such as painting, installing cabinets, minor plumbing, replacing rotten wood, etc. You must also pay rent during this process and have credit and income suitable to acquire some kind of permanent financing. This doesn't mean your credit has to be good, but it does mean not everyone will get approved. Before you're considered for a Work for Equity home you'll know if this is a problem. Once you're approved for the Work for Equity program, you're automatically approved for permanent financing or our in house financing when the house is repaired unless your circumstances change due to loss of income or non-payment of your current obligations.

How do I pay for repairs? A list of repairs will be presented to you prior to any commitment from you. These will be the repairs needed for permanent funding. You may wish to do more than what is on this list, but the list must be completed first. You must fund the cost of the materials. You should have at least $500-$1,000 available to begin the process, in addition to the first month's rent. The repair list will be divided into a maximum of four phases. Each inspection will be done at your request after each phase is completed.

How long do I have to get the work completed? The time for repairs will be agreed upon on a case-by-case basis depending on the amount of repairs needed and your personal situation. No repair schedule will exceed three months and most are done in considerably less time.

When will I be given possession? Possession will be delivered immediately; however, the house may be flagged by a utilities company or condemned. In these cases, the house must be repaired before it can be inspected by the city and released for occupancy. The repairs will be your responsibility. We'll handle the inspection. You may not live in the home without prior consent from us and such consent will not be given until the repairs are completed or in some cases you may put up a deposit and live in the home while repaired if it doesn't require a city inspection before occupancy.

Please make sure you're clear on your occupancy rights. In a nutshell the property must be code compliant in all cases and you will have either completed the repairs before occupying or made arrangements to pay a deposit so you can move in while repairing.

We have no homes you can move in with no money or commitment on your part.

Utilities - You will be responsible for turning on utilities in your name. In those cases where the city must inspect first, we'll handle the details with your assistance.

How much equity will I get? The purchase price will be set up front allowing you more than adequate consideration for your participation. You'll receive a lot more equity in the home than what your labor would cost. The price will be well below the after repair value. The discount will be determined based on the degree of work the home needs. You must agree on the price in advance and all facts will be covered in detail and be in writing. No surprises!

Who pays for insurance? We'll insure the dwelling until you become the owner. Our policy will not cover your contents but it will cover any renovations. You should insure your contents and in some cases you may be required to buy some liability insurance.

Who pays for taxes? We'll pay the taxes until you purchase the home.

How long will I have to purchase? That's a case-by-case answer. Some folks purchase right away, others take months. It depends on your needs and ability to get financing. Sometimes our buyers must live in the home for 6 – 12 months to show a pattern of prompt rent payments to the lender. Other times the loan process is started while the work is in progress. Sometimes we finance the home ourselves permanently and no other lenders are needed. We'll look at what your needs are and structure financing to suit. You'll know all these answers up front.

What if I do the repairs and can't get a loan? Our objective is to sell the home, not rent it long term. You live up to your agreement and complete the repairs and pay rent on time, you will be approved for permanent financing. Again, all these details will be discussed up front and agreed upon in writing by both parties. Since we own the homes, we're very flexible and willing to make it work.

If there's a big problem, we'll know it up front. Of course, we can't be responsible for your financial situation after you take possession of the house. A loss of income or future credit problems can prevent you from qualifying for a loan, but even then we'll help you work it out as long as you pay the rent and keep your promises.

What do I do next? If you haven't already, please fill out our short application and fax to us or call (904) XXX-XXXX. This is not necessary if we've taken your application over the phone.

Once you've found a home you like, call us immediately and let us know. Obviously, when we're offering homes that folks can buy cheap with very little money and built in financing, they don't take long to sell. Call now to ensure availability.

A Good Plan When Offering Work For Equity

When advertising a house needing work you can offer it with an after repaired price or an as is price. If you make the gap between the two attractive enough it shouldn't be hard to attract someone capable and willing to do the work themselves.

Before renovating a house put it on the market "as is" while getting repair estimates. This can be done in most cases before you close the purchase.

The ideal situation is for you to close the purchase and the lease option or owner financing to your buyer on the same day. This frees you up to do a lot more deals and avoid costly entanglements.

If the house doesn't attract a buyer within a reasonable time (30 – 60 days) you can always rehab it after you've played the market.

Another option is to fix whatever is turning off your buyers and offer it on a WFE again at a higher price.

If you still don't get any takers caution is advised. At this point the problem may not be the repairs but something else about the house turning off buyers. Examples – location, too small, weird layout, etc.

You'd be well advised to find the real problem before renovating and discovering the house is still tough to move.

It costs nothing to offer all houses needing work on a WFE program. It may save you a lot of grief and make you a lot more money.

Getting A Commitment

When you find the buyer you like, set an appointment for them to meet you at your office or another location of your choice to sign the Application Receipt Agreement. They should be instructed to bring the full down payment or as much as you can get.

When selling to a couple, be sure both parties are present so you can explain the terms and make sure all parties have a meeting of minds.

Explain the important points and allow the buyers as much time as they need to question you. When this process is complete there should be no questions unanswered and no loose ends left.

If you feel uncomfortable doing this yourself it would be advisable to hire an attorney to handle it for you. If you do, make sure you use an attorney of your choice who represents you.

Checklist For Buyer Meeting For All Seller Financed or Lease Options

This meeting should not take place until you know how much the buyer has to put down and if you accept their credit and income. Here's a list to acquire and items to cover.

Things To Collect:

- Application And Receipt Agreement (executed)
- Pay check stubs
- Deposit check
- Purchase And Sale Agreement if you're ready

Things To Discuss:

- Down payment and ways to increase or trades
- Maximum monthly payment
- Interest rate and term (including balloon) if you can calculate onsite
- 30 day repair warranty or home warranty plan if you wish to offer
- Late penalty
- Any additional collateral or co-signors
- Underlying loan disclosure
- They must get insurance
- Closing procedure and time frame

The Magic Agreement

The Application Receipt Agreement attached is a work of art I wish I had years ago. In a nutshell here's what it does…

- Allows you to take a deposit from a buyer and bind them to an agreement to purchase without you taking the house off the market.

It's simply an agreement to keep their deposit if you accept them and return it if you don't, but nowhere does it say you must sell them the house.

You can literally take several applicants at the same time and release all but the winner with no risk to you.

A purchase and sale agreement is then initialed only when you know it's a go, which will be just before or even at closing.

APPLICATION RECEIPT AGREEMENT

A non-refundable application fee of $__________ and reservation/earnest money fee of $__________are required for processing the application, and is being paid herewith. This Application Receipt Agreement must be signed by all adults who will occupy the property before the Application can be considered by Management. The undersigned expressly agree that if Application is approved they herewith agree to purchase the property located at:

ADDRESS: ____, CITY: _____________, STATE: ________, ZIP: ____

Applicant(s) further agree that if Applicant(s) are accepted by Management and then decide, for any reason, not to move into the premises, then all monies paid herewith shall be retained as liquidated damages since other prospective purchases may have been turned away and it will be necessary for Management to re-advertise the property and evaluate other applicants. Processing of Application shall be timely as possible and the results may be delivered via telephone, fax or mail. Once approved, Applicant(s) agree to pay the balance of funds and complete the paperwork within 48 hours, otherwise, Management will assume that Applicant(s) have decided to forfeit the reservation/earnest money payment and will begin re-marketing the property. If Applicant(s) are not approved, all monies given herewith, less application fee shown above, shall be returned to Applicant.

A PHOTOSTAT COPY OF MY (OUR) DRIVER'S LICENSE(S) OR PICTURE IDENTIFICATION CARD(S), SOCIAL SECURITY CARD(S), LATEST PAY CHECK STUB(S) AND LAST YEARS W-2(S) OR COPY(IES) OF LAST YEARS INCOME TAX RETURN(S) ARE ATTACHED TO THE APPLICATION [ ], OR WILL BE PROVIDED [ ]. I (we) declare that the Application is complete, true and correct and I (we) herewith give my (our) permission for anyone contacted to release the credit or personal information of any of the undersigned Applicant(s) to Management and their Authorized Agents, at any time, for the purposes of entering into and continuing to offer or collect on any agreement and/or credit extended. I (we) further authorize Management or their Authorized Agents to verify all application information including but not limited to contacting creditors, present or former landlords, employers and personal references, whether listed or not, at the time of the Application and at any time in the future, with regard to any agreement entered into with Management. Any false information will constitute grounds for rejection of the Application, or Management may be at any time immediately terminate any Agreement entered into in reliance upon misinformation given on the Application.

I/WE HAVE BEEN PROVIDED A COPY OF THIS APPLICATION RECIEPT AGREEMENT AND HEREWITH AGREE TO THE TERMS STATED HEREIN. ACCEPTANCE OF APPLICATION AND ANY MONIES HEREWITH ARE NOT BINDING UPON MANAGEMENT UNTIL APPLICATION IS APPROVED BY MANAGEMENT.

Signed: ____ Date: ____________________________

Applicant (Print Name): _______________________________ Social Security Number: ________________

Signed: ____ Date: ____________________________

Applicant (Print Name): _______________________________ Social Security Number: ________________

Do Not Write Below This Line – To Be Filled Out By Management

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Receipt of $ ___________________________ form Applicant(s) is herewith acknowledged.

_____________________________________, As Agent ____
Management Company Date

Getting The Buyer To The Closing Table With Owner Financing

Step 1 - Get short application, Application Receipt Agreement and deposit from committed buyer, along with paycheck stub or other verification of income.

Step 2 - Have a mortgage broker pull a credit report or have the buyer pull their own. If your intention is to have the buyer refinance in the near future you should fax the application to a leader for his/her opinion and find out what LTV he/she feels will work and the time required before a refinance can be done.

If you don't care about a refinance, your own judgment will be all you need to proceed. The debt ratio should not exceed 50% or extreme caution is recommended.

Step 3 - If it's a go, your attorney should now complete Owner Financing docs based on your direction and you should review well before closing.

Step 4 - Arrange the closing for three or four days later, notify the buyer of the time and fax the info to your attorney. Tell the buyer to get insurance during this time and put them in touch with your attorney who will tell them what to bring. Make sure your buyer pays your attorney.

Step 5 - Follow up after closing to get your originals and a check from your attorney's escrow account for the balance of the down payment.

When To Buy Insurance

You must buy a landlord's policy if you purchase and install a tenant buyer. But if you're selling with owner financing on any kind of an installment sale, that responsibility falls on your buyer.

You Cannot Insure A House You Don't Own

Your buyer must name your entity as a mortgagee as well as all underlying loans and their insurance company will send them notice.

Do Not Sell Until Buyer's Insurance Is In Place And The Premium Is Paid For A Year

The gap between buying and selling can only be filled two ways. Either the seller can leave it insured until you sell, or you can buy a policy.

If you have a claim during this interval and the seller's insurer finds out title has transferred, you may have a problem collecting and if you do collect it will require the seller's signature.

Protect Yourself When Selling

Wraparound, Land Contracts, Trust Deeds

- Collection Clause – See next page
- Due on Sale – See next page
- Late penalty – See next page
- Have all buyers sign personally, no exceptions
- Get at least 10% down or additional collateral or Lease/Option until you do.
- Assignment of Rents – Provided by your closing agent

Lease Option

- Use good lease option agreement, protecting your interest (on Gold Club website-www.RonsGoldClub.com)
- Late penalty
- The deposit is non-refundable option fee, not a security deposit
- Do not make the lease recordable
- Option subject to the terms of the lease agreement being met. This language must be in the option agreement.
- Let your attorney close. Why?
    1. It's free to you. The buyer pays the fee.
    2. They do all the work.
    3. Less future problems.
    4. Great witness if needed.
    5. They'll keep you legal.

Protection Clauses When Selling

Due On Sale Clause (Put In Mortgage)

Lender shall have the right at its option, to declare any indebtedness and obligations secured hereby irrespective of the maturity date specified in any note or agreement evidencing the same, due and payable within 30 days after such declaration if: (a) Borrower or any successor in interest to Borrower in such property sells, enters into a contract of sale, conveys or alienates such property, or any part thereof, or suffers his title or any interest therein to be divested, whether voluntarily or involuntarily, or leases such property, or any part thereof for a term of more than 3 years, or changes or permits to be changed the character or use of the property, or drills or extracts or enters into a lease for the drilling for or extracting of oil, gas or other hydrocarbon substance or any mineral of any kind or character on such property; or (b) Borrower is a partnership and the interest of a general partner is assigned or transferred; or (c) Borrower is a corporation and more than 25% of the corporation stock thereof is sold, transferred or assigned during a 12 month period; or (d) Borrower is a trust and there is a change of beneficial interest with respect to more than 25% of such property, or (e) Borrower has made any material misrepresentation or failed to disclose any material fact in those certain financial and other written representations and disclosures made by Borrower in order to induce Lender to enter into the transaction evidenced by the promissory note or notes or agreements which this mortgage secures.

Collection And Late Fee Clause (Put In All Incoming Notes Or Land Contracts)

If an installment called for under the terms of this note is not made within five (5) days after its due date, whether voluntary or involuntary, a late charge amounting to ten cents for each dollar or fraction thereof of said installment shall be paid by the makers. The makers hereof also agree to pay any and all set-up fees and collection charges and escrow account charges issued by any institution employed to collect and/or receive the payments due hereunder.

Letter of Agreement and Addendum

Concerning Purchase of _______________________________________

By ______________________________________ Date ________________

I have been made aware that the existing loan on the property I am purchasing contains a due on sale clause which means the lender has the right to call the entire loan due upon transfer of the property to me.

I agree that if this should happen it will be my responsibility to either assume the loan or pay it off. If I am unable to do either or make arrangements with the lender I may lose the house to foreclosure.

If this should happen, I will hold the seller completely harmless for any loss that may occur.

__________________ ______________________________
Date Buyer's Signature

__________________ ______________________________
Date Buyer's Signature

Notice

Your attorney should prepare his/her version of this language and include it in the closing documents if you intend to sell with owner financing or simply deed the house to a new buyer leaving the existing loan in place.

Paper Trust

Anytime you're selling a property or making a loan to a borrower, you should take ownership of that debt instrument in a paper trust. This applies to land contracts, unencumbered mortgages, promissory notes, single debt payments or tax liens.

This gives you the same protection as a land trust does for property ownership. Very simply, take title to the property in a land trust and take ownership of paper in a paper trust.

All you have to do is insert or have inserted the name of your trustee on the debt instrument in the slot where your name would normally be placed.

Do not try to explain the trust to the closing agent; it's none of their business. They don't need to see the trust agreement until it's time for you to satisfy the debt because you've been paid off. Even so, you'll rarely be asked to produce the trust.

In short…shut up and don't create problems stemming from their ignorance.

When you get home from the closing, fill out the trust agreement and file it in the property file.

This will create privacy of ownership and some degree of protection from creditors and predators. You name will not be on any public records as the owner of any easy to attach asset.

TRUST AGREEMENT

THIS TRUST AGREEMENT is made this ______ day of _______________, 20_____ by and between

____, Grantors and Beneficiaries, (hereinafter collectively referred to as the “Beneficiaries”) and

____, Trustee of the _________________________ Trust, (hereinafter referred to as the “Trustee,” which designation shall include all successor trustees).

WHEREAS, the Beneficiaries are about to convey or cause to be conveyed a certain note and mortgage to the Trustee and

WHEREAS, the Trustee has agreed to accept such conveyance and hold the note and mortgage in trust under the terms and conditions set forth below.

NOW, THEREFORE, the parties, intending to be legally bound hereby, agree as follows:

1. TITLE. The trust created by this instrument shall be known as the _________________ Trust.

2. OBJECTS AND PURPOSES OF TRUST. The purpose of this trust is for the Trustee to take and hold title to the note and mortgage conveyed to the Trustee and to preserve the same until its sale or other disposition.

The Trustee shall not undertake any activity which is not strictly necessary to the attainment of the foregoing objects and purposes, nor shall the Trustee transact business within the meaning of applicable state law, or any other law, nor shall this Trust Agreement be deemed to be, or create or evidence the existence of a corporation, de facto or de jure, or a Massachusetts Trust, or any other type of business trust, or an association in the nature of a corporation, or a co-partnership or joint venture by or between the Trustee and the Beneficiaries, or by or between the Beneficiaries.

3. TRUST PROPERTY. The Beneficiaries are about to convey or cause to be conveyed to the Trustee in trust a certain note and mortgage as described more particularly in Schedule “A” attached hereto and made a part hereof. This property, together with any property later added to the trust, shall be designated as the “Trust Property”. The Trustee will hold the Trust Property according to the terms and conditions of this Trust Agreement for the purposes, terms and conditions contained herein until such time as all of the Trust Property has been sold or otherwise conveyed, or until this trust has been terminated.

4. POWERS AND DUTIES OF TRUSTEE. The Trustee shall have all of the powers allowed to him by the provisions of the state law governing this Trust (see Paragraph 18). The Trustee shall specifically have the power to make and execute contracts for the sale of the Trust Property, option agreements for the sale of the Trust Property and to otherwise dispose of the Trust Property as the Trustee shall be directed by the majority in interest of the Beneficiaries. In addition, the Trustee shall have the power to perform any act that the majority in interest direct the Trustee to perform. The Trustee shall exercise his powers only upon the written direction of a majority in interest of the Beneficiaries.

The Trustee shall have the duty to maintain an accurate record of the Beneficiaries of this Trust, which record shall include the names and addresses of the Beneficiaries and their respective interests in the Trust and be designated as Schedule "B". The Trustee shall only have such other duties as required in writing by a majority in interest of the Beneficiaries.

The Trustee shall not have the power to bind any of the Beneficiaries personally to any debt or obligation without the express written consent of the Beneficiary.

5. COMPENSATION OF TRUSTEE. The Trustee shall be compensated for his actions as Trustee according to the Schedule of Compensation set forth in Schedule "C" attached hereto and made a part hereof. The Trustee shall be promptly reimbursed by the Beneficiaries for the expenses incurred by the Trustee in the administration of the Trust. The Trustee shall have a lien on the Trust Property for any unpaid compensation or unreimbursed expenses.

The Trustee shall not be obligated to advance any money on account of this Trust. The Trustee shall not be obligated to commence any legal action or to defend against any legal action unless the Trustee, in his sole discretion, is satisfied with the security provided by the Beneficiaries for the payment of the Trustee's costs and expenses in connection with the litigation.

If the Trustee shall pay or incur any liability to pay any money on account of this Trust, or incur any liability to any money on account of being made a party to any litigation as a result of holding title to the Trust Property or otherwise in connection with this Trust, without regard to the cause of action asserted or complaint filed, the Beneficiaries, jointly and severally, agree that on demand they will pay to the Trustee all such payments or liabilities, his expenses incurred in connection therewith, including reasonable attorney's fees, and any other sums advanced by the Trustee on behalf of the Trust for any reason whatsoever. These amounts, if not immediately paid to the Trustee, shall bear interest at the rate of ten (10%) percent per annum until paid in full. These amounts and any compensation due to the Trustee, until paid in full to the Trustee, shall constitute a lien on the Trust Property. Further, as long as these amounts or any compensation due to the Trustee remain unpaid, the Trustee shall not have any obligation to take any action with regard to the Trust Property.

6. LIABILITY OF TRUSTEE. The Trustee shall not be personally liable for any obligation of the Trust. No Beneficiary shall be able to bind the Trustee nor contract on his behalf without the Trustee's express written consent. The Trustee and any successor Trustee shall not be required to give a bond. Each Trustee is liable only for his own actions and then only as a result of his own gross negligence or bad faith.

7. REMOVAL OF TRUSTEE. A majority in interest of the Beneficiaries shall have the power to remove the Trustee from his office and appoint a successor to succeed him.

8. RESIGNATION AND SUCCESSOR. The Trustee may resign by giving written notice to each of the Beneficiaries of his intention to resign.

The majority in interest of the Beneficiaries shall have the power to elect a successor trustee. If the Beneficiaries have not elected a successor trustee within thirty (30) days of the date of the notice from the Trustee of his resignation, then the Trustee shall have the right to convey the Trust Property to the Beneficiaries in the same proportion as their interests in the Trust may appear at the time of said conveyance.

If the office of the Trustee shall become vacant for any reason, then the Beneficiaries shall proceed to elect a successor trustee. Said election shall occur within thirty (30) days of the occurrence of the vacancy. Upon election, the new Trustee shall cause to be prepared a certificate of his election containing a notice of election and his acceptance thereof in a form acceptable for recording in the office of the register of deeds of all of the counties in which the Trust Property is located. The certificate of election shall be filed in the office of the register of deeds of all of the counties in which the Trust Property is located.

A successor Trustee shall have all of the rights, duties and powers of the original Trustee as if the successor Trustee was the original Trustee.

The removal, resignation or death of the Trustee shall not affect the lien of the Trustee upon the Trust Property for compensation or expenses owed to the Trustee.

9. INCOME TAX RETURNS. The Trustee shall not be responsible for the preparation and/or filing of any tax returns which may be due for the reporting of income and expenses of the Trust, although he will sign such returns upon request. The Beneficiaries shall each individually report receipt of their respective share of the profits, earnings, avails and proceeds.

10. INDEMNIFICATION OF THE TRUSTEE. The Beneficiaries agree to indemnify, hold harmless and defend the Trustee from any and all liability incurred in his capacity as Trustee. If the Trustee shall pay or incur any liability to pay any money on account of this Trust, or incur any liability to any money on account of being made a party to any litigation as a result of holding title to the Trust Property or otherwise in connection with this Trust, without regard to the cause of action asserted or complaint filed, the Beneficiaries, jointly and severally, agree that on demand they will pay to the Trustee all such payments or liabilities, his expenses

incurred in connection therewith, including reasonable attorney's sees, and any other sums advanced by the Trustee on behalf of the Trust for any reason whatsoever. These amounts, if not immediately paid to the Trustee, shall bear interest at the rate of ten (10%) percent per annum until paid in full. These amounts and any compensation due to the Trustee, until paid in full to the Trustee, shall constitute a lien on the Trust Property. Further, as long as these amounts or any compensation due to the Trustee remain unpaid, the Trustee shall not have any obligation to take any action with regard to the Trust Property.

11. DEALINGS WITH TRUSTEE. No party dealing with the Trustee, in relation to the Trust Property in any matter whatsoever, including, but not limited to, a party to whom the Trust Property or any part of it or any interest in it shall be conveyed, contracted to be sold, by the Trustee, shall be obligated to see to the application of any purchase many or money borrowed or otherwise advanced on the property; to see that the terms of this Trust Agreement have been complied with; to inquire into the authority, necessity or expediency of any act of the Trustee; or be privileged to inquire into any of the terms of this Trust Agreement Every contract, assignment of mortgage or other instrument executed by the Trustee in relation to the Trust Property shall be conclusive evidence in favor of every person claiming any right, title or interest under the Trust that at the time of its delivery the Trust crested under this Agreement was in full force and effect; and that the instrument was executed in accordance with the terms and conditions of this Agreement and all its amendments, if any, and is binding upon all Beneficiaries under it; that the Trustee was duly authorized and empowered to execute and deliver every such instrument; if a conveyance has been made to a successor or successors-in-trust, that the successor or successors have been appointed properly and are vested fully with all the title, estate, rights, powers, duties and obligations its, his or their predecessor in Trust.

12. BENEFICIARIES. The beneficiaries are the persons or legal entities identified, along with their respective interests, on Schedule "B" which is attached hereto and made a part hereof.

The beneficiaries are entitled to all of the profits, earnings, avails and proceeds of the Trust Property.

13. INTEREST OF BENEFICIARIES. The interests of the Beneficiaries shall consist solely of (a) the right to manage and control the Trust Property; (b) the right to direct the Trustee with regard to the disposition of the title to the Trust Property; and (c) the right to receive the profits, earnings, avails and proceeds from the sale or other disposition of the Trust Property.

The foregoing rights of the Beneficiaries are hereby declared to be personal property and may be assigned or otherwise transferred as such. The death of any Beneficiary shall not affect the existence of the Trust nor in any way diminish or alter the powers of the Trustee. No Beneficiary shall have any right, title or interest, whether legal or equitable, in the property which is held as Trust Property. No Beneficiary shall have the right to require partition of the Trust Property.

The Beneficiaries shall not use the name of the Trustee for advertising or other publicity purposes without first obtaining the written consent of the Trustee.

The Beneficiaries shall be required to carry liability insurance in such forms and in such amounts as the Trustee, in his sole discretion, shall deem necessary to insure the Trust Property and the Trustee. If the Beneficiaries fail to obtain or maintain the required insurance policies, then the Trustee shall have the right, in his sole discretion, to advance the money necessary to pay for said insurance policies. The Beneficiaries will reimburse the Trustee for the insurance as set forth above in Paragraph 5.

No Beneficiary shall have right to bind or otherwise contract for any other Beneficiary except as provided for elsewhere under this Agreement.

14. ASSIGNMENT OF BENEFICIAL INTERESTS. The Beneficiaries have the right to assign any part or all of their interests under this Trust. No Assignment shall be valid or affect the interest of a Beneficiary hereunder until the original of the assignment shall be delivered to the Trustee and the Trustee's acceptance acknowledged thereon. The trustee shall revise and update Schedule "B" as necessary. Any assignment of the right to direct the Trustee by a person who is not a Beneficiary hereunder shall not be valid unless all of the Beneficiaries consent in writing to said assignment.

15. DISCLOSURES OF BENEFICIARIES. The Trustee and the Beneficiaries shall not disclose the identity of any Beneficiary without the written consent of said Beneficiary except as may be required by law or at the direction of an order of court issued by a court of competent jurisdiction. Any party who discloses the identity of a Beneficiary shall be personally liable for any and all losses and damages incurred by that Beneficiary as a result of the disclosure.

16. RECORDING OF AGREEMENT. This Trust Agreement shall not be placed of record in any jurisdiction. If this agreement is placed of record, then it shall not be notices of any interest which may affect the title or the powers of the Trustee.

17. ENTIRE AGREEMENT. This Trust Agreement contains the entire understanding between the parties hereto and may be amended, revoked or terminated only be written agreement signed by the Trustee and all of the Beneficiaries at the time of the amendment, revocation or termination.

18. GOVERNING LAW. This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of ____________________. In the event that litigation shall rise between parties to this Agreement, then it is agreed that the losing parties shall reimburse the prevailing parties for all of those parties' reasonable attorney's fees, costs and expenses in addition to any other relief to which the prevailing parties may be entitled.

19. BINDING EFFECT. This agreement shall be binding upon and inure to the benefit of the Trustee, any successor trustee, the Beneficiaries, and the Beneficiaries' successors, heirs, executors, administrators and assigns.

20. ANNUAL STATEMENTS. The Trustee shall be required to furnish annual statements to the Beneficiaries of the income and expenses of the Trust for each calendar year. The statements shall be provided to the Beneficiaries no later than March 1st of the following year.

21. PERPETUITIES. If any portion of the Trust Property is in any manner or time period capable of being held in this Trust for longer period of time than is permitted under the laws of the state law governing this Trust Agreement (See Paragraph 18), or the vesting of any interest under this Trust could possibly occur after the end of such permitted time period, then, upon the occurrence of the foregoing, the Trustee is directed to immediately terminate the Trust and to distribute the Trust Property to the Beneficiaries as their respective interests may appear at the time of the termination of the Trust. As much as possible, the Trustee will maintain the Trust Property intact and not liquidate it, but, rather, distribute the Trust Property in kind.

22. TERMINATION. This Trust may be terminated thirty (30) days or more after the date upon which all of the Beneficiaries agree in writing to said termination. The Beneficiaries shall immediately give the Trustee written notice of the effective date of termination. The Trustee shall execute any and all documents necessary to effectuate the transfer of the Trust Property to the Beneficiaries as their interests may appear.

23. NOTICE. Any notice that is given in connection with this Trust Agreement shall be given (a) to the Beneficiaries at the address set forth in Schedule "B" as shall be changed from time to time upon notice to the Trustee from the Beneficiaries; and (b) to the Trustee at such address as he may hereafter specify. The notice shall be deemed to be validly given if personally delivered or mailed to a person by first class mail, postage prepaid, at the above specified address.

24. DEFINITION OF MORTGAGE. The term "Mortgage" as used herein also includes any Trust Deed used to secure the lien of a trust-owned note against real property.

IN WITNESS WHEREOF, we have executed this Trust Agreement on the day and year first above written.

WITNESS	BENEFICIARIES
______________________	______________________
______________________	______________________
______________________	______________________
______________________	______________________
	TRUSTEE:
______________________	______________________

ACKNOWLEDGMENTS

State of _________________________

County of _______________________

Before me, the undersigned officer in and for said county and state, personally appeared ________________________________, known to me (or satisfactorily proven) to be the person(s) whose name(s) (is) (are) subscribed to the foregoing instrument and acknowledged that (he) (she) (they) executed the same for the purposes contained therein.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal this _____ day of _______________, 20____.

____
Notary Public

My Commission expires:

State of ______________________

County of ____________________

Before me, the undersigned officer in and for said county and state, personally appeared _________________________________, known to me (or satisfactorily proven) to be the person(s) whose name(s) (is) (are) subscribed to the foregoing instrument and acknowledged that (he) (she) (they) executed the same for the purposes contained therein.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal this _____ day of ______________, 20____.

____
Notary Public

My Commission expires:

SCHEDULE "A"

The following is the legal description of the Trust Property contained in the foregoing Trust:

SCHEDULE "B"

The following are all of the Beneficiaries who own all of the beneficial interest in the foregoing Trust:

Name	Address	Percentage of Interest

1.

SCHEDULE "C"

The Trustee will be compensated in the following manner:

Buyer's Package You Should Collect For Your File

Here's a list of items to assemble before and after closing for your benefit and for anyone else you may want to sell the note to or borrow against or maybe trade:

1. The original note
2. Recorded mortgage, deed of trust or land contract
3. Credit report on buyer(s)
4. Application on buyer(s)
5. CYA letter from buyers(s)
6. Paycheck stubs or proof of income
7. Proof you collected the down payment
8. Appraisal (if you have one, comps if you don't)
9. Home inspection (if you have one)
10. WDO report (if you have one)
11. Survey (if you have one)
12. Title report
13. All other docs from closing
14. Buyer's insurance
15. Purchase agreement

Put these items in a package to a buyer or lender and their job will be easy.

What Gets Recorded

Buying

You always want to make sure any mortgage, land contract or deed of trust gets recorded, along with the deed to you if applicable. This is not your concern if you close with an attorney, as you should. He/she will insist it's recorded right after closing.

Selling With Owner Financing

Recording a mortgage, deed of trust or land contract with a debt owed to you is required by most states and your attorney will insist on doing so.

Selling With A Lease Option

You never want a lease option agreement recorded to needlessly cloud your title. It should not contain a notary section or have room to add one so it can't be done without your knowledge.

Collecting Payments And Maintaining Insurance Coverage

If you'll follow my plan of doing less to make more, you will not become a collection agent or need to write checks every month to make underlying payments.

There are companies that will do this for you if you'll let them and the buyer will pay the cost if you add my collection clause to their note.

Here's a list of companies that you can contact to do it for you:

- www.escrowserv.com
- www.noteservicingcenter.com
- www.sellerloans.com
- www.bankersescrow.com
- www.notecollection.com

They'll send the 1099 to your buyer and you and make sure the insurance doesn't lapse.

Make your buyer add your trust name as the insured, but use the collection company's address. The insurance company will send the notice to them if the policy is close to lapsing and they'll notify you to take action.

This is not applicable if your seller's loan has an escrow account, since the bank will make sure it stays enforced.

You must add the bank as first mortgagee and you as second so the bill goes to the bank and it gets paid. As long as you're making the payment, it will.

If the bank doesn't get evidence of insurance, they will force place a policy that will cost more and not cover you or your buyer.

When an escrow account exists, you simply become a pass through for taxes and insurance. Don't worry about the paperwork, since any wraparound mortgage, All Inclusive Trust Deed (AITD) or land contract will contain language that allows you to collect 1/12 the taxes and insurance each month. You should verify the language is present.

Whatever the bank is collecting each month for taxes and insurance, you simply add to your principal and interest payment you collect. This number will change each year. When it does, you notify the buyer, unless your collection company will do it for you.

The rule is simple:

You Collect What You Pay!

Don't try to collect more. This is not a profit center.

Tax Consequences Of Selling On Installments

If you own the property less than a year, you'll pay short term capital gains at your current tax bracket. Over a year gets you long term gains at 20% max bracket as of this writing.

You'll pay the taxes as you receive the profit.

Example

You buy a house for $150,000. How you buy is irrelevant.

You now sell for $200,000 with $20,000 down and wrap $180,000 with monthly payments.

Your capital gain is $50,000 ($200,000 minus $150,000). That's 25% of your sales price.

You'll be taxed on 25% of the $20,000 down payment in the year of the sale. Each principal payment you receive will be taxed only on 25% as they are received. You'll be taxed on 100% of the interest received and may deduct 100% of the interest you pay.

How much debt you owe when you buy the house or when you refinance does not define your taxable income. You're taxed on the difference between what you pay and what you sell for. If you depreciate along the way, it will be recaptured upon the sale.

What Can Go Wrong When Selling With Owner Financing?

There are several things you should consider and do your best to prepare for prior to the sale. You'll never eliminate all the risk; you can only mitigate it and be ready if it's an issue.

1. The buyer can stop making payments.

2. The buyer can file bankruptcy.

3. The buyer could sue you for misrepresentation, fraud, something in the agreement, faulty equipment or building, or anything else they could conceive.

Avoiding Defaults By Buyers You Owner Finance

The size of the buyers' down payment and their ability to pay is your only insurance against default.

The minimum down payment you should take on any sale you owner finance is 10%. It's usually not hard to get considerably more. The better quality house, the easier time you'll have getting larger down payments.

If you find a buyer you like who doesn't have enough down to make you feel comfortable, simply take what they have and lease option to them until they pay in the balance.

The longer it takes to foreclose in your state, the more this rule becomes important.

If it takes more than 90 days, use Lease/Option or use a technique below to help insure you'll collect.

- Additional collateral—Does the seller have other property he can add to your collateral?
- Personal guarantee by parents or friend.
- Personal or real property to trade for all or part of the down payment.

Handling Defaults From Owner Financed Buyers

1. When the payment is 5 days late send out a late notice immediately adding the late penalty. (Get your collection service to do it for you.)

2. After 15 days late have your attorney send a default notice.

3. After 30 days late have your attorney file foreclosure.

All costs must be made up by the buyer to reinstate the loan. You must get their attention quickly and set a pattern of fair but firm rules.

If you see you're not going to get paid it's time to contact the buyer to make arrangements for them to deed the house back to you and move.

Again, it's cheaper to buy them out than foreclose them out.

Be sure to do a title check before taking a deed in lieu of foreclosure to insure no liens have been filed against your buyer that may attach to the house.

Have your attorney prepare the deed in lieu to insure it's done properly.

What If My Buyer Files Bankruptcy

If your buyer files bankruptcy, there's nothing to do but tell your attorney. This will stop incoming payments. It's likely the bankruptcy will name the underlying lender, which will also stop your outgoing payment until it's resolved, and the lender cannot foreclose if the owner (your buyer) is in bankruptcy. In any case, you should be preparing to bring the lender current when the bankruptcy is over. If it's a Chapter 7, you'll get the property back at foreclosure when the court clears the way. If it's a Chapter 13, the court will order the debtor to make payments at some time. If they don't, you can move toward sale.

In either case, the underlying will be several months in arrears and it will consume a lot of equity. Therefore, a smart investor will build an escrow fund to provide for bad debt so if and when the time comes, you'll be prepared and not lose the house.

Bankruptcy is the biggest risk to any lender and a cost of doing business. There is no way to sell with owner financing and eliminate the risk.

If you feel your buyer is going to file, the best strategy is to buy them out before they do. Even if it costs you $5,000, $10,000, or more, it's cheaper than a bankruptcy.

Every case will be different and each state has its own rules, so your attorney will guide you through it and do all the paperwork. Don't even think about navigating a bankruptcy without good legal advice.

What If My Buyer Sues?

The risk of being sued goes along with any business, including real estate. The only thing you can do is the best you can to prevent it going in and prepare for it if it happens anywhere along the way.

If you do everything you say, live a good life with a gentle heart and treat others as you want to be treated, you still may get sued…or you may have to sue.

Litigation Is A Business Tool

No one likes it, except attorneys, but it's part of our society and sometimes becomes a reality.

Here's all you can do to prevent being sued:

1. Don't make promises you can't keep.

2. Get everything in writing on rock solid contracts.

3. Use the best lawyer you can't afford.

4. Go over everything that can go wrong with your attorney and add provisions in your agreements to prevent it and/or resolve if possible.

If you get sued, you do not answer it or have communication with the other party. Turn it over to your lawyer immediately and let him/her advise you.

Any action you take other than this can jeopardize your position.

Traps To Avoid When Buying And Selling In Your IRA

You should learn the rules and get help to avoid costly errors here. We'll discuss some areas of concern.

Buying And Selling

If you take over debt subject to and sell with owner financing, it will trigger UBIT (Unrelated Business Income Tax). This means you will get taxed on the gain. The same holds true if you buy on a wrap, even if the note is not personally guaranteed and your IRA cannot guarantee debt.

However, the new rule as of 2010 is if the underlying debt is paid off for a year before you cash out, it will not trigger UBIT.

Even if you pay taxes on a gain, remember the remaining profits grow tax free for the rest of your life.

Seller Financing
Mistakes To Avoid

Here's a list of items you could scan when buying and selling:

<u>Buying</u>

1. Don't put out more cash than you get from a buyer's down payment.

2. Don't agree to payments that kill your cash flow. Work hard to reduce them.

3. Don't personally guarantee debt.

4. Always close with your attorney and let him/her prepare the docs.

5. Any deed or other document to be escrowed must be held with an escrow agent or your attorney, not sellers.

6. Never pay a seller more than a small deposit directly. Funds should go in your attorney's escrow account.

7. Don't pay too much just because the seller will finance. Get free equity.

8. Don't forget to check my clauses to add to your offer.

9. Don't make any promises that would prevent you from selling with owner financing, i.e., when you'll pay off the debt, due on sale clause.

Selling

1. Work to get large down payments and high monthly payments.

2. Add a balloon, 5 year minimum.

3. Get personal guarantee and/or co-signers.

4. Try for additional collateral.

5. Always let your attorney close.

6. Take title in a paper trust.

7. Don't take the first applicant. Play the market until you're satisfied. Check them out.

8. Let a professional collect payments.

9. Get help structuring the note if you intend to sell it.

10. Don't waste good buyers because you're not flexible enough to help them with payments they can afford and raising down payments.

11. Be sure to add collection clause.

Seller Financing Test III

1. When you sell on a wrap and are trying to determine the total PITI incoming payment, where do you find out how much to collect for taxes and insurance?

    ____

2. Name two advantages of a Work For Equity sale.

    ____

3. What should you be doing during the first 30 days incase a WFE buyer doesn't appear?

    ____

4. Name two items you should collect at a buyer's meeting:

    ____________________ and ____________________

5. Name two things you should discuss at a buyer's meeting:

    ____________________ and ____________________

6. What agreement should you get the buyer to sign when collecting a deposit?

    ____

7. When is it okay to close your own sale?

    ____

8. Who buys insurance when you sell with owner financing?

    ____

9. Who must be named on the policy besides the owner?

____

10. Name two important items you should have added to your closing docs that won't get added unless you see to it.

____________________ and ______________________

11. What important disclosure should be in your sales package and signed by the buyer?

____________________________ Letter

12. How do you take title to a receivable?

____

13. When should a land contract get recorded?

____

14. Who should collect incoming payments?

_____ your spouse

_____ your lawyer

_____ a collection service

15. What should you do if a buyer defaults?

____

16. Name the three most important things you learned here. (You can't miss this one.)

____

____

____

Seller Financing Test I Answers

1. Name three advantages of buying with seller financing.

   Lower rates and payments when buying.

   Doesn't show on your credit report.

   Can close quickly buying and selling.

2. Name one reason to do a wrap around an underlying loan of the same amount.

   So the seller can make sure the underlying note gets paid to protect their credit.

3. What are the three basic tools (financing documents) used to buy or sell with owner financing?

   Wraparound Mortgage

   Land Contract

   Deed Of **Trust**

4. What's the best kind of seller financing?

   No interest, no payments.

5. What are the two main ingredients you should focus on when buying with seller financing?

   Low down payments and **low monthly payments.**

6. Name two ways to raise down payments other than writing a check:

   Subordination and **selling part of a note to seller.**

7. What is subordination?

   When a seller agrees to take back a second mortgage and allow you to get a new first without paying them off.

8. What is substitution of collateral?

   The mortgagee allows you to transfer your mortgage from one property to another (a transfer of collateral).

9. When buying a house with small equity, what’s the key ingredient we discussed that should influence your decision to do so?

   Payment on underlying mortgage.

10. Define a real estate dealer.

    Anyone who buys with the intent to resell.

Seller Financing Test II Answers

1. Name three advantages of selling with owner financing.

   Minimal qualifying.

   Quicker than conventional financing.

   Easy to attract prospects.

2. If you sell on a wrap around a due on sale clause name two solutions if the loan is called due.

   Sell the note for cash and pay off the lender.

   Negotiate with lender and change their mind.

3. When is it best not to sell on a wrap?

   When there's little or no monthly spread or equity left in the note.

4. What's the number one qualifier we discussed when prescreening a buyer with owner financing?

   Down payment or income.

5. Name two ways to help your buyer get more down payment.

   Trade and **borrow from family/friends.**

6. Should you add a balloon to your incoming notes?

   Yes.

   Why? **You have leverage when it's due; increase the value of your note.**

7. If you wrap an ARM, name one way to satisfy a buyer's concern about increased payment.

   Cap the incoming payment and add a balloon to protect yourself.

8. Name two ways to construct an incoming second mortgage to help your buyer afford the total monthly payment.

   No payments with accruing interest and a balloon later and **partial interest payments with a balloon.**

9. Name three things you can do with second mortgages you receive.

   Trade the note for personal property.

   Use as collateral.

   Pay off some of your debts with your notes.

10. Define hypothecation.

    Borrowing against receivables.

Seller Financing Test III Answers

1. When you sell on a wrap and are trying to determine the total PITI incoming payment, where do you find out how much too collect for taxes and insurance?

   The sellers note or bank statement.

2. Name two advantages of a Work For Equity sale.

   No repairs to do after the sale, at least 50% more net profit.

3. What should you be doing during the first 30 days in case a WFE buyer doesn't appear?

   Put on market "as-is" while getting repair estimates.

4. Name two items you should collect at a buyer's meeting:

   Pay check stubs and **Application and Receipt Agreement.**

5. Name two things you should discuss at a buyer's meeting:

   Down payment and **increasing monthly payment.**

6. What agreement should you get the buyer to sign when collecting a deposit?

   Application Receipt Agreement.

7. When is it okay to close your own sale and not use an attorney?

   NEVER.

8. Who buys insurance when you sell with owner financing?

   Buyer.

9. Who must be named on the policy besides the owner?

Your entity.

10. Name two important items you should have added to your closing docs that won't get added unless you see to it.

Collection clause and **high late fee.**

11. What important disclosure should be in your sales package and signed by the buyer?

CYA Letter.

12. How do you take title to a receivable?

Paper Trust.

13. When should a land contract get recorded?

Always.

14. Who should collect incoming payments?

_____ your spouse

_____ your lawyer

__X__ a collection service

15. What should you do if a buyer defaults?

Buy them out or foreclose them out.

16. Name the three most important things you learned here. (You can't miss this one.)

____

____

____

Resource Section

Resources

RonLeGrand.com – This is the website for Global Publishing, Inc. and you'll find our schedule of upcoming events with a description of each and a free electronic newsletter you may subscribe to.

Ron LeGrand's Gold Club Membership – Through this exclusive membership, you'll have access to countless investor resources including everything from the latest articles on money-making techniques in real estate and on the internet to eye-opening case studies. It'll also give you access to the best resource of all, me.

Eagle VA– Ron's own Virtual Assistant service to help you run your Real Estate investing business.

LeGrandYellowLetters.com– Yellow Letters are the best way to get sellers to call you about their homes.

PATLive.com/signup/Ron – Your 24 hour answering service to take your calls and fill in information sheet for you and they will email to you as they receive them.

Consulting With Ron LeGrand – One day consulting with Ron LeGrand

Useful Websites and Contacts

Rentometer.com—find rental rates and lots of other useful info

TLO.com—background checks cheap

MyFICO.com, **annualcreditreport.com**, **creditkarma.com**—sites for free credit reports

Wholesalebannerz.com—banners

Callfire.com—text 3¢ each

Evernote.com—$456 one time fee, take pictures of license plate and enter and get full report on owner and if car is stolen

Escrow Service Inc.—800-654-7870

Escrowserv.com—$50 set up, $15 a month to collect rent or payments and pay underlying nation wide

Escrow Specialists, Inc.—800-427-8698, escrow specialists.com—same service

Insurance for landlords, cheap—**Chuck Jurgens** 919-880-0101

C Mobile/app—sends you new craigslist ads

Homesnap/app— take picture of house at site and it tells you all the information about it instantly

What states have tenants by the entirety ownership?

States that allow legally married couples to own property as "tenants by the entirety," a type of joint ownership that offers protection from creditors:

Alaska
Arkansas
Delaware
District of Columbia
Florida
Hawaii
Maryland
Massachusetts
Mississippi
Missouri
New Jersey
Mississippi
Oklahoma
Pennsylvania
Rhode Island
Tennessee
Vermont
Virginia
Tennessee
Wyoming

States that allow tenancy by entirety for real estate only:

Illinois
Indiana
Kentucky
Michigan
New York
North Carolina
Oregon

Ron LeGrand's Gold Club Membership

Our Virtual Assistants are fully trained on completing Property Information Sheets, whether from finding & calling FSBOs or from other marketing campaigns (yellow letters, ads, signs, etc.). We can also place your online ads, screen buyer calls, and many other tasks to save you more time to close your deals.

✓ ***Yes, sign me up!*** **I understand I'll get will be charged a one-time set-up fee of $500 if I elect the *Gold Elite VA* or the *Gold Plus VA* membership levels.**

❒ BEST DEAL: Gold Elite VA

Includes All Gold & Gold Plus Benefits Plus…

- Includes up to 40 hours of VA service
- We'll Call FSBOs and Run Your Office
- E-mail Real Estate Deal Hotline
- Ron LeGrand's Automatic Lead Service

❒ $997 Per Month

1st County__________2nd County________

❒ GOOD DEAL: Gold Plus VA

Includes All Gold & Gold Plus Benefits Plus…

- Includes up to 20 hours of VA service
- We'll Call FSBOs For You
- Ron LeGrand's Automatic Lead Service

❒ $497 Per Month

1st County__________2nd County________

❒ Gold Plus Membership

Includes All Gold Club Benefit Plus...

- Ron LeGrand's Automatic Lead Service

❒ Pay in Full 1 Year - $1,067 (1 free month)

❒ Pay Monthly - $97 monthly

❒ You receive your choice of 2 Counties for Ron's Automatic Lead Service Select;

1st County_________2nd County_______

❒ Gold Club Membership

- Gold Club Membership Website
- Ron LeGrand's Lesson Videos
- Webinars & Events: Calendar and Mailings
- Open Line Monday Q & A Calls with Ron
- The Gold Club Weekly Report
- The Mentor Newsletter

❒ Pay in Full 1 Year - $649 (1 free month)

❒ Pay Monthly - $59 monthly

Name:_________________________________ Master /Mentor______**Y or N**_____VA Start Date:_______________

Address:____

City: ______________________________State: ________ Zip: _____________ Phone: (______) __________________

Fax: (______) ________________ Email :____

Payment - Please charge the following credit card as indicated above: Set-up Fee $________ $________Per Month

Card #____ Exp. Date: _________

Name on card: ___________________________ Billing Address: ____

I have read and understand the terms and conditions on the reverse side and authorize the charges referenced above.

Signature (Required): ____ Date:

Please Note: *Your credit card statement should reflect a purchase from* ***RONLEGRANDTRAINING.COM***

Terms of Agreement – Gold Club Members, LLC (d.b.a. Eagle Virtual Assistant Services) and its assistants, also referred to as "Virtual Assistants" or "VA", agrees to provide professional virtual assistance as outlined on the specific membership level indicated on the front side of this order form. By engaging in this contract, Client agrees to the contract terms of **12 Months** continuous services beginning at execution of this agreement. At the conclusion of the 12 Month term, this agreement will automatically renew for an additional term of **12 Months** unless Client notifies otherwise per the normal course of membership cancelation outlined elsewhere on this agreement. The monthly billing will begin upon acceptance of a VA and continue until client cancels agreement. If client does not accept a VA offered by company within 45 days the set-up fee will be forfeited and this agreement void.

Services/Rates – Gold Club Members, LLC (d.b.a. Eagle Virtual Assistant Service)s offers a variety of services including researching and calling: FSBOs, Craigslist ads, yellow letters & buyer calls. Other services include answering calls, appointment setting, quality control follow ups, database updates, ad placements, and other real estate business support. The exact services offered to Client are dependent on the level of membership elected via this order form, the Client's active participation in marketing the methods taught by Ron LeGrand, and the Client's active role in guiding their assigned VAs in the types of services they require for their individual needs.

All services will be billed in advance based on the membership level elected. Setup Fees and Monthly Membership rates billed are noted on the membership level elected on this order form. The Rates of Service beyond what is included in the election of membership level through the completion of this order form will be as follows: Client agrees that all usage of VA service time beyond the monthly service cap for Client's membership level time will be billed in hourly increments of **$21.00/hour ($.35/minute)** to the credit card on file on which the monthly service charges are billed. Engagement in this contract is agreement that services provided are authorized to be billed as described.

Cancellation – Gold Club Members, LLC (d.b.a. Eagle Virtual Assistant Services) offers a compelling list of benefits, but should Client wish to discontinue services for any reason, we offer a generous cancellation policy. Client may terminate this agreement at any time within the 12-Month term by providing a one-week (7 days) prior written notice given by return receipt requested via email to: **clientservices@eaglevirtualassistants.com** or providing the same written notice with fax confirmation via fax to **904-407-3960.**

Client agrees that any setup fees, applicable as noted by the membership level elected on this order form, are *non-refundable* beyond a 3-day grace period, for any reason. Client also acknowledges that non-receipt of VA Services is not a condition for refund of monthly membership fees and that due to the 12-Month term of this agreement, no refunds will be given for any monthly membership fees incurred, even once cancellation is made. Client agrees and acknowledges that cancelations received by Eagle Virtual Assistant Services are terminations for *future* services and billings and will not be retroacted or prorated into refunds for *previous* billings incurred.

Additional Terms and Conditions – By engaging in this agreement, Client acknowledges that Gold Club Members, LLC (d.b.a. Eagle Virtual Assistant Services) and its staff does not function as Client's real estate broker, personal accountant, attorney or financial advisor. If Client has a tax or legal question, they will seek the advice of an accountant, attorney, financial advisor or real estate broker. Client is responsible for Client's actions and hereby releases Gold Club Members, LLC (d.b.a. Eagle Virtual Assistant Services) and any of its staff, employees, officers or affiliates from liability for any of Client's actions or comments that may be influenced by the information contained in products and services received through this or any other products, services, or affiliations. From this day forward, Client assumes full responsibility for Client's personal, physical, emotional and financial well-being.

Providing the information on the other side of this form gives Global Publishing, Inc. permission to communicate with Client via fax, email, or phone to relay special offers, announcements and/or information that Client may need and/or find valuable in Client's business.

By my signature below, I accept under this agreement given to me that I have a duty to read and understand the terms and conditions as set forth above and have done so, including but not limited to the cancelation/refund policy and procedures. I attest to this duty by my signature below that I accept and execute this document as set forth. Furthermore, I understand and accept that I am prevented from using lack of reading as a defense against all remedies so contained herein.

Client's Signature	Client's Printed Name	Date

Gold Club Members, LLC.
9799 Old St Augustine Rd. Jacksonville, FL 32257 ·
Toll Free Phone: 1-888-840-8389 (904-262-0491) · Toll Free Fax: 1-888-840-8385 (904-262-1464)
www.RonLeGrand.com®

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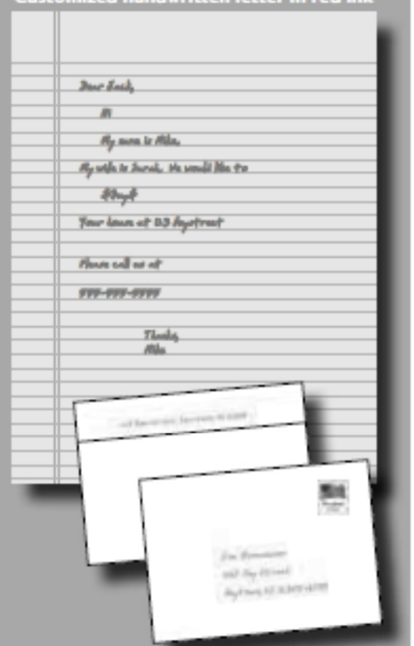

Invitation A7 envelope
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Receive a 15-30% response rate with this "handwritten" letter from AMG!

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Most successful real estate investors drop 250 letters per week. Real estate investors with a high performance team drop 500+ per week or more.

Program Description

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- Red handwritten return address on flap
- Hand stuffed with flap tucked in and unsealed for 100% open rate
- Red handwritten addressing on front side of envelope
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- Shipped directly to real estate investor that placed the order

Unsealed envelopes results in a 100% open rate!!

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Ron LeGrand®

Millionaire maker Ron LeGrand backs his advice with 30 years and millions of dollars of hands-on experience.

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Orderform on back!

LeGrand®
Yellow Letters

1-888-711-5185
Ask for Eric Weisgarber or
his assistant Chris Fleming

www.LeGrandYellowLetters.com

Yellow Letter Campaign V2 NP0813

Fax this form to 1-888-256-3131 to get started today!

ORDER FORM

REAL ESTATE INVESTMENT YELLOW LETTER MARKETING

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1-888-711-5185
Ask for Eric Weisgarber or his assistant Chris Fleming
www.LeGrandYellowLetters.com

Company Name: ______________________

Name: ______________________

Phone Number: ______________________

eMail address: ______________________

SHIPPING ADDRESS:

Street: ______________________

City: ______________________

State: ____________ Zip: ____________

BILLING ADDRESS: ☐ Check if same as shipping

Street: ______________________

City: ______________________

State: ____________ Zip: ____________

☐ Check by Fax (Fax copy of check to 1-800-391-7437)

CREDIT CARD AUTHORIZATION FOR $____________

☐ I hereby authorize Allegiant Marketing Group, Inc to charge my creditcard the above amount for products and services.

☐ Visa ☐ Mastercard

Name on Card: ______________________

Credit Card Number: ______________________

CVS Code: ______________________

Expiration Date: ______________________

Date: ______________________

Signature: ______________________

Fax this form to 1-888-256-3131 to get started today!

Quantity

Includes red variable print on yellow paper, postage, list, and shipping.

☐ 1,000 (minimum order) ☐ 2,500
☐ 5,000 ☐ 10,000

Filters

We will run counts for you. Purchase a list or supply your own. You may mix your lists from the list below for $1.25 per mailpiece.

☐ 2004-2007 Mortgage Origination Dates (with home values $200-500K)
Quantity: ____________

☐ Absentee Owner Lead List
Quantity: ____________

☐ Free and Clear Lead List (Properties that have 91-100% Equity)
Quantity: ____________

Mail Piece Information

Zip Codes/Counties requested in order of preference:

____

____

____

This letter is from: ______________________

Spouse? ☐ No ☐ Yes Name: ______________________

Phone number inside letter: ______________________

Return address on envelope

Street: ______________________

City: ______________________

State: ____________ Zip: ____________

Campaign Name: ______________________

To inquire about additional lists, contact Eric Weisgarber or his assistant Chris Fleming.

- Non-Owner Occupied Properties
- Divorce
- Probate
- Pre-Foreclosure
- Homeowners and Financial Distress List
- Auto Loans
- Home Equity Loans
- Taxes
- Credit Cards
- Over Mortgaged

Ron LeGrand - PATLive
Live Receptionist Application

How PATLive's live answer service can help you:

PATLive's highly-trained Live Receptionists will answer all of your calls 24/7/365 according to your custom scripts. They will pre-qualify your leads, answer FAQ's and save you money and valuable time!

PATLive has answered calls for Ron and his students since 1995:

"PATLive helped me solve the age-old problems my students had: talking to unmotivated sellers and taking incoming calls while trying to work. PATLive's service is the difference between success and failure, and is a godsend to the art of prescreening."

– Ron LeGrand

Ron's Recommended Package

❒ $149.95 Monthly Fee

- Includes 250 live answer minutes per month
- Includes up to 5 local or toll-free numbers
- $149.95 one-time setup fee
- $0.95 per additional Live Receptionist minute

Unlimited Package

❒ $2,995 One-Time Annual Fee

- Unlimited Live Receptionist minutes
- Best deal for higher volume users
- Fair usage rules apply*

Additional Unlimited Package Information:

* Please note that PATLive reserves the right to adjust our agreement with you, at any time, should your advertising produce extremely high call volumes (i.e. running widespread TV or radio ads) and prevents PATLive from serving all of its customers with high service levels.

Once your PATLive unlimited service has completed its 1-year term, your account will be converted to PATLive's standard monthly service: $149.95 per month for 250 Live Receptionist minutes, $0.95 each add'l minute.

Sample Script Questions: SELLER CALL

If not using a Virtual Assistant:

1) May I get your name please?
2) Your phone number including the area code?
3) What do you think your house will appraise for?
4) What are you asking for the house?
5) What do you owe on the house?
6) How did you hear about us?
7) What's the address?
8) When do you want to move?
9) Are your payments current or behind?
10) Does the house need any repairs?

If using a Virtual Assistant:

1) Do you have a house for sale?
2) What is your phone #? Cell phone #?
3) What is the address?
4) What is the best time to reach you?

Sample Script Questions: BUYER CALL

If not using a Virtual Assistant:

1) May I get your name please?
2) Your phone number including the area code?
3) In which area are you looking to buy a home?
4) How many bedrooms and baths would you like?
5) What is the maximum monthly payment that you can afford?
6) How much money do you have for the down payment?
7) Are you ready to buy now?
8) How soon are you looking to move?
9) Is your credit good, fair or ugly?

If using a Virtual Assistant:

1) Are you interested in buying a house?
2) What is your phone #? Cell phone #?
3) What is the best time to reach you?

Cedars Bldg B, Suite 200 · 2639 N. Monroe St. · Tallahassee, FL 32303
800.775.7790 · Fax 800.800.6126 · pat@patlive.com · www.patlive.com

Ron LeGrand - PATLive
Live Receptionist Application

Customer Information:

Subscriber Name ______________________________ **SS/Fed ID #** ____________________

Mailing Address ____

City __________________________ **State** __________________ **Zip** _____________

E-mail Address ____________________________ **Fax** ____________________________

Home Phone _________________________ **Business Phone** _________________________

Live Receptionist Script Information:

You will be using PATLive Receptionist for: ❒ Callers wanting to buy a home ❒ Callers wanting to sell a home ❒ Callers wanting to buy and/or sell a home ❒ Yellow Letter scripts

Will you be using a Virtual Assistant (VA) to do follow up for you? ❒ Using a VA ❒ NOT Using a VA

Send caller information by: ❒ Email after each call ❒ Email once a day ❒ Fax after each call ❒ Fax once a day

Will you receive more than 50 calls per week? ❒ Yes ❒ No

Are you planning television or radio ads? ❒ Yes ❒ No

PATLive will answer your calls using either your name or your business name.
Example 1: "Thank you for calling ABC Realty." Example 2: "Thank you for calling John Smith's office."

Please provide the name or business name to use when we answer your calls: ______________________________

What script should callers hear while being sent to PAT? Example: "Please hold for an ABC Realty representative."
❒ I would like this sample script with my business name. ❒ I do not want any message at all.
❒ I would like the script to read: ____

Payment Method:

❒ **VISA** ❒ **MasterCard** ❒ **Discover** ❒ **American Express**

Credit Card # _________________________ Cardholder's Signature _________________________

Expiration Date _____________ Name As It Appears On Card (please print) _________________________

Customer Signature:

Customer Signature ________________________________ **Date** ________________

Your signature indicates consent to the terms of agreement found on www.patlive.com or requested from PAT at 1-800-775-7790.

Fax this form to 1-800-800-6126
You may also sign up online at www.patlive.com/ronlegrand

Thank you for using PATLive!

Cedars Bldg B, Suite 200 · 2639 N. Monroe St. · Tallahassee, FL 32303
800.775.7790 · Fax 800.800.6126 · pat@patlive.com · www.patlive.com

Consulting With Ron LeGrand

I am available on a limited basis to do one day or half day consulting on the following topics:

1. **Building a speech and close to drive your platform sales through the roof.**

2. **Building a marketing system to sell seminars and/or products and how to implement in a cost effective way. This does not include copywriting, but I am available to select clients on a limited basis.**

3. **How to build and grow your personal real estate investing business.**

Consulting will be done in Jacksonville, FL and the cost is $10,000/$20,000.

Half payment is due upon booking and balance 2 days prior to consulting.

For further details, please see me or return this form to me by fax at (904) 421-0181 or email to ron@legrandprojects.com and I'll call you to discuss.

□ Ron, please call me.

Name: ____

Phone: (________)_____________________________________

Fax: (__________)_____________________________________

Email:____

Lead/Property Information Sheet

Student ___________________________

Date _________________________ Owner's Name ____________________________________

Source ________________________ Cell Phone ________________Evening _______________

Address ___________________________ ★ Asking Price ___________________________________

City _______________State________ ★ Sellers Estimated Value __________________________

Area of town______________________ ★ Your comps ____________________________________

Existing Mortgage Information (must have)

★ 1st - $______________ Lender ___________________________ __________% Pmt _________

2nd - $______________ Lender ___________________________ __________% Pmt _________

Is Payment PITI ____Yes _____No Current? _____Yes ____No$___________________ in Arrears

If asking price and loan balance are within $35,000:
Will you sell the house for what you owe on it?
___Yes ___No

If the house has a Mortgage:
If we can agree on a price and we accept all responsibility for future repairs would you consider a lease purchase? ***Yes / No (circle one)***
YES – OK, I'll have my boss call to discuss terms. When is the best time?_______(***get info below)***
NO – So you're saying if you don't get full price and all cash you won't sell? ***Yes/No (circle one)***
YES – OK, I understand but that wouldn't make sense for us. Thanks ***(stop here)***
NO – OK, I'll have my boss call to discuss several ways he can buy your home. What's the best time to call?_____________(***get info below)***

If the house is Free & Clear:
If Yes – Will you consider taking monthly payments for your equity? ***Yes/No (circle one)***
If No – Would you consider a lease purchase making us responsible for all repairs? ***Yes/No (circle one)***
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How did you arrive at your asking price? ___________________Reason for selling?________________

Does it need repairs? ________Yes ________No

★ When do you want to move? ______________________Is the house listed? _______________________

Description:

Bed/Bath: ________________ Square Feet: __________________ Lot Size: ________________

Construction: Frame_____ Brick_____ Block_____ Stucco_____ Other______________

Garage: 0 1 2 Carport: ____ Basement: ___ Refrigerator _____ Range ____ Dishwasher _______

Is the house Vacant___ Occupied_____Is this a house or a Condo? Yes/No Association fee$__________

Notes:____

____

____

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Student ___________________________

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Ron LeGrand's®

Wholesaling Houses

V.012310
Toll Free Phone: 1-888-840-8389 or (904) 262-0491
Toll Free Fax: 1-888-840-8385 or (904) 262-1464

www.RonLeGrand.com

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2. making a copy to give to a friend for free
3. distributing one or multiple copies to others for profit
4. making copies for any other reasons

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Remedies Against Violators Can Include Fines in excess of $400,000 Plus Up To 5 Years Jail Time Plus Recovery Of All Legal Fees

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Wholesaling Step By Step

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- How To Prescreen Your Prospects Quickly To Buy And Sell
- How To Construct Offers That Get Accepted And Ensure A Profit
- How To Determine Market Value
- Where To Find The Best Deals In The Shortest Time
- How To Estimate Repairs In Minutes
- How To Sell Quickly To Hungry Buyers
- How To Work With Agents To Leverage Your Time And Increase Your Income
- Most Common Questions From Students
- How To Put Your Business On Automatic Pilot
- How To Write Purchase And Sale Agreements Like A Pro To Buy And Sell

Where Will This Work?

It will work in all price range houses anywhere in Canada or America. It works best in lower priced markets simply because it's easier for your buyers to raise the cash needed to purchase the property. However, I have students in both high and low priced areas doing very well by simply finding the bargains and passing them on quickly to bargain hunters. The low dollar areas produce much more profit per deal. Both markets can be worked effectively with the ability to structure offers properly.

Is It Worth Your Time?

The average wholesale deal is worth $10,000 in low priced areas.

Using the $10,000 figure it would only take 10 deals per year to yield a $100,000 income.

When properly trained, an investor should get at least one offer accepted for every 10 – 15 presented when combining FSBO's and bank owned houses.

Therefore, using 15 offers per deal, a whole year's work would consist of making 150 offers to make $100,000.

That's 13 offers a month or 3 per week. And that's assuming you don't get better than 1 out of 15 and you don't make more that $10,000 per house.

Is it worth your time? Perhaps you should be asking…is you job worth your time?

What if you get serious and flip 5 a month at $10,000 each. That's $600,000 per year. Somewhere in here is a real business better then most any franchise and you owe me no royalties or franchise fee.

Wholesaling Advantages

- Requires very little training
- Need very little money and no credit
- Very little risk
- You can generate lump sums of cash quickly
- Can work from home with minimal overhead
- Requires only small amounts of time
- No tenants or buyers to qualify
- No long term delays
- High income potential
- Fast track to job replacement
- No repairs or contractors
- No license required
- Ample supply in today's market

Wholesaling Disadvantages

- Limited to houses that can be bought well below market value.

- Only one payday on each property.

- An investor focusing on wholesaling will only achieve 20% - 30% of the total income potential of those using all methods available.

- May be difficult in high priced areas because the buyers must produce larger sums of cash.

- The current market condition generates a lot of competitive activity due to the massive bargains available today.

The 14 Step Quick Start Guide

The following are guidelines to help you through your first deal. These guidelines contain some easy to follow steps you should be able to complete during your first few days as a real estate entrepreneur. Proceed at your own pace. I realize some people have a lot of things going on in their lives and time is at a premium. Others want to get started immediately and proceed as fast as possible. Regardless of whether you complete these steps in fourteen or thirty days make sure you complete them. Don't skip any. You can't rush success by bypassing the basics. In fact, if you want to create a sure-fire plan for failure, ignore these steps and make up your own rules as you go. I did it and learned my lesson.

My refusal to listen and my rushing to succeed cost me about five hard years of learning from the school of hard knocks as well as several million dollars in stupid mistakes. Don't let this same thing happen to you. I'm recommending these steps because I know they will work if you let them.

There are only two ways to learn anything. The first is the hard way. Inventing the wheel and learning from one battle after another can be a very expensive education, not only in lost money and time.

The second is to learn from someone who has walked before you and smoothed the pathway. If you take this route you'll be glad you did. It's quicker, easier and a whole lot less expensive by far. Following this path may mean the difference between success and failure.

You can improvise a little here and there. I'm a firm believer in testing new things as you grow. Many of my students have done much better in their first year than I did in my first five. The reason is simple:

I Had To Create The Basics, *You Don't!*

The students who quickly excel are those who do much of what I ask and don't constantly work to outsmart me. Spend your time processing deals as I've laid them out for you in your course and you should find yourself making money very quickly.

I've spent almost 30 years and personally done hundreds of deals. I've trained thousands of students nationwide. I'm the best qualified person on earth to help you quickly make money with single family homes, with little or no money, no credit and almost no risk. I know what works and what doesn't and how straying from the basics even a little can make the difference between making money or not. So, for now, trust in your new program and let's get to work.

Step 1: Learn the Basics

Go ahead and put down this guide and come back to it only after you have completely reviewed the entire course. This means all the audio and study guides. Please, do not take any shortcuts. Regardless of your education, current lifestyle or past experience, you can't learn what I know unless you take the time and make the commitment to do so. Please, make the time and do whatever it takes to absorb the material it has taken me so many years to compile and qualify to offer to you. Your family will be glad you did.

Step 2: Identify The War Zone

Obtain a map of your city and have it reduced to an 8½” x 11” size. You may use both sides and split the map in half, or, if necessary, use several sheets. Any copy center can do this for you. Identify your residence with a dot and write home above it. Then draw an outline around the areas you consider to be war ones. Write War Zone inside this area.

If you don’t know where the war zones (low income, heavy crime) are in your city, get the help of someone who does. This can be a member of you local real estate association, a Realtor, a landlord, an appraiser, a postman, meter reader, or anyone else who is knowledgeable enough regarding your city. You will need to research and pinpoint these areas, which you’ll only have to do once. You’ll get better as you get out in the field, but most cities have war zones that are common knowledge. Find all you can and indicate them on your map.

If you live in a large city such as Chicago, Los Angeles, Atlanta, the Washington D.C. area, etc., it is not necessary for you to locate every single war zone. You won’t need to. The purpose of this exercise is to acquaint you with your city, not to make you a map maker. It won’t be difficult to locate these areas in any city with a population of one million or less. In the larger cities, simply locate as many as possible.

Step 3: Determining Market Value

You must decide how you will determine the After Repaired Value (ARV) of the prospects you will soon be seeking. There are several ways to do this. How you go about it depends on your experiences and current involvement in the real estate field.

Your Choices Are:

1. You're licensed and have access to the Multiple Listing Service (MLS).

2. You know or will find a real estate agent who can do market analysis for you. Since you will be making offers on some listed houses, the listing agent should provide the After Repaired Value (ARV) on these. This can also lead to a relationship to get comparable sales done on non-listed houses.

3. You subscribe to a data base service that allows you to tap into the tax rolls so you can pull up your own market analysis. Do not use the tax assessed value. You should investigate a service of this type in your area. Some choices are included in your course.

4. Look for similar houses in good condition that are on the market in the subject area. Call agents and For Sale By Owner (FSBO's) from the sign in the yard to determine their asking price.

5. If you're contacting the seller directly you should always ask what he/she thinks the house would be worth if it were in excellent condition. This may or may not be a real number, but it's something to go by until you can do a more diligent investigation. Always ask how they arrived at the value. If it came from an agent's analysis or an appraisal. Remember, if the house is ugly it's probably the "as is" value. You're looking for the after repaired value, so it should be higher. If the seller's figures came from the tax assessment, it's usually well below the real market value.

   Here's a list of websites you may find useful in researching your market analysis:

   www.City-Data.com
   www.domania.com
   www.eppraisal.com
   www.RealQuest.com
   www.trulia.com

How To Determine The True Market Value

The only way to find the market value of a house is to do a:

Comparable
Market
Analysis.

When a CMA is prepared on a house, only houses that are **SOLD** can be used for comparison.

The following items make up a CMA.

1. Recent Sale

2. Close in proximity

3. Close in square footage

If three very close comps came in at $143,000, $139,000, $145,000, what would you price your house at after putting it in excellent condition?

This is the ARV (After Repaired Value)

Step 4: Locating Prospects

Drive Around

Drive around and find at least twenty prospects you feel are good targets for making offers. You should be looking in the low-priced markets where the cheapest houses in your town are located. These areas should be reasonably well kept and people feel safe living there.

Some Of The Characteristics You Should Include Are:

- Low priced areas but not war zones.
- Needs work, the more the better. Condemned houses are good prospects but all should not be condemned.
- Vacant is preferred, but not mandatory.
- May or may not have a "For Sale" sign by agents or owner. All prospects are acceptable whether the sign exists or not. Some listed properties should be in your first batch. This will help establish a communication line with some agents.
- Single family homes only! We will not work with multi-family or commercial property in this course.
- Asking price is at least 30% below ARV.
- At least 850 square feet.

Take a photo of the front and rear of the house if it's vacant. If not vacant, only take a picture of the front. Take a picture of the front of the houses on each side of the subject property. This will give you a reference of how well the neighbors keep up their house, which could affect the sale value of yours. Complete a property information sheet on each house.

If the house is vacant, look into each window and write down what you see.
Write down a simple description of the color and some other distinguishing feature of the house on your information sheets. This will ensure you're attaching the correct photo on the form.

Once you have inspected twenty or more prospects, staple four pictures to each information sheet; one front view and one rear if the house is vacant, and one of each neighbor. Attach only three photos if the house is occupied. Mark each photo with a felt pen and the words "subject" on you prospect photo and "neighbor" for the two houses flanking the one you're interested in.

Call the listing agent on the houses that display Realtor signs. Use the Realtors script in your course. Persist and keep following up until you get the MLS printout on the house and an estimate of the ARV (After Repaired Value). Tell the Realtor you'll be back in touch shortly with an all-cash offer and follow the instructions under Realtors.

Some Realtors will not fax you the MLS printout. They feel it is an MLS property and not open to the public. If this is the case, you must get the facts you need over the phone to make an offer. This will include asking price, loan balance and their opinion of the ARV. If you have difficulty getting the facts or run into a Realtor who is just impossible to deal with (and you

will), simply pass to the next prospect. The best thing you can do with uncooperative Realtors, or anyone else for that matter, is nothing.

Call the owner of the houses with FSBO signs or no signs, which need repairs and complete the same information sheet. Obtain as many facts as you can, but don't hang up the phone until you ask the owner the following. ***"If I pay you all cash and close quickly, what is the least amount you'll accept? Is that the best you can do?"***

Don't stop finding prospects until you feel overloaded and are wondering how you will handle them all. Don't worry, you can't find too many. When we get to prescreening, most of them will quickly be disqualified. You'll be left with a handful of good prospects. However, if you only start with two or three prospects and all of these get disqualified during prescreening, you'll be left with nothing. If you're in this business more than 30 days and haven't done a deal, usually you can come right back here for the root of your problem.

Good Deals Begin With Good Prospects

The first step to making money as a real estate entrepreneur is finding and prescreening prospective sellers. Your entire business will hinge on this. You can't make offers until you locate those who need your help and are willing to listen. Let nothing stop you from completing this extremely important first step. We know you will have to talk to several sellers before you find quality leads. It's a number game.

SW – Some Will **SW** – Some Won't **SW** – So What **SW** – Someone's Waiting

Remember, your entire business will be built around locating prospects just like any other business. A service station can't sell gas unless the customer drives up to the pump. An insurance agent, real estate agent, car salesman, hairdresser, doctor, attorney or any other product or service-driven business cannot survive without first locating prospects. Your business is no different. If you fail here, you won't make any money as a real estate entrepreneur. You must understand and internalize that real estate, just like most businesses, is a numbers game.

You Can't Build A Successful Business Around Just One Customer

In our case, the first customer is the seller. The more sellers we find, the more money we'll make. Don't spend your time driving around finding two or three ugly houses then stop looking. Don't call a handful of sellers from the paper and quit calling. You'll need a minimum of twenty ugly houses to work with. It's your job to quickly prescreen them and deal only with those who give you the right answers to your questions. Most ugly, vacant houses will not be purchased for the amount you're willing to offer based on my system discussed in your course. Remember the Funnel Theory. Get the suspects in the top of the funnel, figure out quickly which are prospects and then narrow those down to the few that become deals. Follow up with those that don't. It's really that simple, but if you fail to understand the Funnel Theory and expect everyone you talk with to sell you their house, you're in for disappointment. This is a real business and all real businesses require real work. Most of the work you'll be doing is attached to locating prospects. So don't even think about going to the next step until you have a big pile of prospects.

Lead/Property Information Sheet

Date ___________________________ Owner's Name _____________________________

Source ___________________________ Day Phone ________________________________

Address __________________________ Evening Phone _____________________________

★ Asking Price ____________________________

Area ____________________________ ★ Estimated Value _________________________

Existing Mortgage Information

★

1st - $______________ Lender ___________________________ __________% Pmt _________

2nd - $_____________ Lender ___________________________ __________% Pmt _________

Payments Current? _____Yes _____No $___________________ in Arrears

Reason For Sale ____

How did you arrive at your asking price? ____

Is the house listed? ____

★ Does it need repairs? ________Yes ________No

★ When do you want to move? ____

Optional: Will you sell the house for what you owe on it? _________Yes _________No

Description:

Bed/Bath: ________________ Square Feet: __________________ Lot Size: ________________

Construction: Frame_____ Brick_____ Block_____ Stucco_____ Other______________

Central Heat/Air? _____Yes _____No

Garage: 0 1 2 Carport: ____________________ Basement: _______________________

Appliances: Refrigerator _____________ Range ____________ Dishwasher _____________

Is the house Vacant________ Occupied________

Notes:____

____

____

____

How To Locate The Owner Of Vacant Houses

There are numerous websites to assist you in locating owners of vacant houses. Some free and some you must pay. You'll usually get what you pay for.

- zabasearch.com
- intelius.com
- address.com
- peoplefinders.com
- ussearch.com
- search.infospace.com
- privateeye.com

You can spend your life on these sites, but I'd suggest you assign that task to someone else, perhaps the agents we discuss next.

There are also skip tracing companies who will find the seller for you for a fee, such as **FindTheSeller.com**. You can buy in bulk to save money, but don't get hung up on the cost. If you have to pay $20 each and you only buy one out of ten you find, wouldn't you spend $200 here to make $10,000 or more? If you're not careful you can cost yourself right out of business. One lost deal will pay for a lot of skip tracing.

You may also wish to mail an ugly letter discussed in my Pretty House Cash Flow System. When you hand address it be sure to put "address correction requested" on the envelope. If they've left a forwarding address, the post office will put it on the envelope when it's returned for less than a dollar. That's a cheap skip trace.

Now call information and see if a phone number exists. If not, or even if it does, mail another letter to the new address and make sure you put the vacant house address in the letter as the one you want to buy.

Special attention should be given to the houses with hard to find sellers. If you can't find them neither can your competition but a skip tracer can.

These hard to find sellers will be the best deals you'll ever do in the ugly house business and are worth the effort.

If they are free and clear, and many are, you can negotiate some outstanding deals. They don't care about the house or it wouldn't be ugly and vacant. You are a welcome guest and likely the only one who's contacted them.

If the house is in foreclosure you've found a great short sale prospect no one else will know about. Put it under contract and work the short sale.

If it's already bank owned you won't buy it now until it's listed but you should put your letter under the door so you may get contacted by a Realtor when the bank lists it.

Put it in a follow up file to pursue every month until you buy it or it's sold.

The Ant Farm

This method is called “The Ant Farm.” As you read on, you’ll probably discover just why I call it that. In a nutshell, it’s getting everything we just discussed done for you so you can have a constant supply of houses without leaving your desk.

What I’m going to attempt to do here is to get you in the habit of cultivating ants. Not real ants, but human ants.

You see, an ant’s job is to totally serve the queen. They spend their lives building the nest and bringing crumbs to their queen. Now, one ant couldn’t undertake this massive job by itself, so the ant has to team up and tackle the job as an organized business. Each ant has his job and contributes his share. While this is going on, a big fat queen sits back, enjoys life, becomes fruitful and multiplies.

Of course, in our little scenario, you’re the queen or king, if you prefer. If you get good at inducing your human ants to bring you all the best deals in town then you too can sit back, enjoy life, be fruitful and multiply your bank account.

What we’re going to do is set up a referral system. This will not be the old standard system as you know it, where you get people to bring you leads on houses and pay them X number of dollars if you buy it.

That system has one major flaw. It doesn’t work very well because no one believes they will actually get paid. When they do believe it, they never know when because they don’t know when you will close the purchase. Promised dollars payable sometime in the future just doesn’t motivate people. We live in a society of instant gratification.

If this is true, let’s find a way to get people excited about what they’re doing and get them paid immediately, which is the only way you will keep them excited.

Here it is in a nutshell. Joint Venture with people to bring you leads and pay them for their services immediately.

Let’s see how that would work…how many people do you know who own a car and a camera who could use a part time income? I’ll bet you know a bunch. How about your own kids or even your own parents? How about all the students, unemployed or handicapped people you know? Something tells me you won’t have any trouble finding people who want to make some extra money riding around taking pictures of houses.

All we want these ants to do is look for the right houses, collect a little information and take a picture of the house. We’ll tell them where to look and what kind of houses we need. When this is done and they collect several of these leads, they’ll be delivered to your home or

office. Your ants will get paid for each lead they bring you and perhaps even a little more on the ones you buy.

Let's pick this apart and convert it to numbers so you can get a feel for the power of this program.

These are the two key factors in finding the best deals. People who own vacant houses that need considerable work are generally motivated. Therefore, we come right back to what we're looking for, motivated sellers only.

Let's make sure we understand the meaning of ugly. I'm not talking about a few hundred dollars in cosmetic repairs. I prefer several thousand dollars in serious repairs, or what people think are serious repairs. The more work that's needed on the house, the fewer people will be looking at it to buy and produces serious motivation to sell in most cases.

I like: peeling paint, broken windows, rotten wood, tall grass, bad roofs and foul smelling houses. In fact, the worse they smell the better. I love cat and dog urine. It turns off most people, but it turns me on.

You see, I don't think the house stinks at all. I think it smells like money. I've learned that smells are easy to get rid of and what looks like $20,000 in repairs to most people is only $8,000 - $10,000 or less.

When you learn to look past the repairs and ignore the smell and see the house finished, you'll possess a talent that will produce endless cash flow.

What about boarded up houses with condemned signs? Based on what we just discussed, I think they should be prime targets. Don't you? Think about it. The only reason a house gets boarded up or condemned is because the owner can't or won't do the necessary repairs. After several notices from the city, if the repairs aren't done, the owner will then be ordered to board it up themselves or the city will do it for them and put a lien against the house.

Most of these houses can be put back together into excellent repair with a few thousand dollars. As soon as the repairs are completed, the city will come out and inspect the house and release the condemned status. It's not complicated or unusually difficult to deal with condemned houses.

Doesn't it stand to reason that people who own these houses have a problem you just may be able to solve for them? How many offers do you think the owners of boarded up, condemned houses are getting?

The answer is probably none. You'll be in a minority of people who would be interested in the house.

Therefore, instead of shying away from the board ups, perhaps we should be seeking them out. Besides, look at all the free plywood you get with the deal.

OK. Now we understand what ugly means so we know what to instruct our ants to look for. Remember, they'll be bringing you a photo of every single house they find so you'll know instantly if it's a prime candidate.

To refresh your memory, all we want our ants to do is bring you photos and addresses of ugly houses, with or without for sale signs and go next door and try to find the owners on the ones without signs and go online to find the rest. That's it. That's all you're asking them to do. Now let's see how to pay them.

I use the following schedule of payment and it has worked well.

> $5.00 for each vacant and ugly house if the owner's name is not produced or if it's listed.
>
> $10.00 for each vacant and ugly house if the owner's name or phone number is produced. This can be a FSBO sign or from the ant tracking down the owner from the websites in the last chapter.
>
> $250.00 for each house I buy.

Remember, one or more photos must be attached to each information sheet for them to get paid and it must meet the criteria I gave them to look for. I will also instruct them what neighborhoods to do their research and keep them separate to prevent duplicates.

These figures can be altered to suit your needs, but they have worked well for me.

If you're doing a little multiplying about now, you have probably already figured out what it will cost you if your ants bring you back a pile of leads.

Let's see now. Supposed you get 30 leads in one week. Gosh, that's $300 you have to shell out to your ant. What if you get 50 at one time? My goodness, that's $500, payable now.

My friend, do you have any idea what your life would be like if someone drops 50 leads on your desk with 50 photographs and 50 information sheets on 50 ugly houses that are vacant and ready to steal? Do you have any idea what this will mean to you in profits?

Let's just suppose that out of these 50 prime candidates, you do a lousy job and are only able to buy 5 houses. Let's also suppose that you're only in the wholesale business and you don't want to retail a single one of them. You're going to put them under your contract and sell them cheap to other investors or owner occupants looking for a handyman special.

We'll assume that your average profit will be low because you're not even good at negotiating deals yet. You paid more than you should have on these vacant and sometimes boarded up houses because you haven't been to my boot camp yet. Even though you're new to the business, you don't need to know much to make low all cash offers on ugly houses. So you

stumble along, screw up and still manage to buy 5 of the 50 at prices reasonable to squeak out a measly $5,000 wholesale profit on each house within 30 days.

The way I figure it, that's a $25,000 income minus the $500 you paid for the leads. A $24,500 profit for a $500 investment. You could do one deal out of 50 and make the same money, if you buy correctly.

The truth is, a $25,000 income on 50 such qualified prospects is minimal compared to what it could be.

Just think, those 50 leads are only the result of 1 or 2 ants working one week. What about the rest of the year and the other few hundred or few thousand houses still out there ripe for the picking? What if we send out more than 2 ants to work?

Maybe you're thinking it won't be long before you cover the whole town. Get serious! By the time you do that, if you ever do, it will be time to start all over again and tap the batch of new ugly houses that are available. You'll never buy them all, in fact, you'll never come close.

Are you beginning to see the potential here? By using my Ant Farm method alone, you can easily produce more hot deals than you can handle without ever running an ad, putting out a flyer, doing a mail out or any other time consuming tasks. Your business is run right from your desk. The only time you go look at a house is after you have found the owner, got the facts and have it under contract.

You can also train the ants to track down the seller's phone number and call them before you get the lead and fill out the property info sheet. This is now a $10 lead for them and a goldmine for you.

Since you don't pay until your receive the leads, you can have as many ants as you can handle and cover your entire city. The more they do, the more you can handle. The more you get, the more you can sell and the bigger your machine can get.

The key is to put it on autopilot so you can do 5-10 deals a month with a minimum profit of $10,000 each. You do the math.

Start Your Ant Farm Today!

Realtors

All bank owned properties will be listed and most in the MLS. This is a viable source of deals today, but not without a price.

Here's the downside:

- This is the easiest place to find deals so it's the most worked, thus a lot of competition.
- You'll do a lot of legwork on houses you won't buy unless you get someone to do it for you.
- You'll have to make 15 – 30 offers to get one accepted at a price I'd approve (coming up).
- Realtors want to control everything and you'll have to learn to handle them correctly. This will take time and likely a little frustration to learn.
- You'll need larger deposits and proof of funds, unlike FSBO's (coming up).
- Some investors do nothing but use Realtors to buy houses and that's a recipe for frustration and failure. Consider them only one way to find deals…not <u>the</u> way.

Here's the upside:

- There's a plentiful supply of bank owned properties that must be liquidated in all price ranges.
- They're all free and clear and delivered with clean title.
- There's no short sale to negotiate or long time delays.
- No pre-foreclosure laws you'll inadvertently violate because the house is no longer lived in.
- The agents do almost all the work, leaving you free to do other things.

You'll be using Realtors only for buying all cash deals and short sale deals, which are indirect all cash deals. No "subject to", seller financing, options or anything outside all cash.

Do not try to educate agents. Work with them the best you can to make them comfortable with you but don't try to change their comfort zone.

Finding The Right Realtors

There are only two ways to locate them, either find the agent first and back into the houses or find the houses first and back into the agents. I prefer the later but do both.

If you're driving around looking for houses or have your ant farm set up, you'll find plenty of ugly, vacant houses with agency signs in the front yard. This will back you into the proper agents because they have bank owned houses listed and understand that part of the business.

Now you simply call the listing agent on the sign and ask for the MLS printout so you can make an offer. You should also ask for comps and anything else he/she knows that would be helpful. Here's your script:

"Hello __________, I'm inquiring about the house at 123 Main Street with your sign on it. Could you fax/email me the MLS sheet on it if it's still available so I can get you an offer tomorrow?"

Pause – Wait For Answer

"I buy 2 or 3 a month and I've got some capital I need to put to work quickly. Do you have more like this you can send?"

This dialogue will get their attention if you say it with conviction, but don't assume you've impressed them much. They hear a lot of hot air from so called investors and will need to see some serious intent before their trust level goes up much.

If you do this with all the houses with agency signs, soon you'll have a flood of prospects coming at you every week, all from the listing agents who don't have to share their small commission.

When you find one or two you like, you can now ask them to find you some good prospects in the MLS from other listings and begin an ongoing relationship.

Here's my search criteria:

- **Area I Want To Work** – You can cover a lot of area with wholesaling because you'll never visit the house more than once and maybe not even once.
- **Price Range** – The wholesaling business is best done in the bottom of the market. That depends where you live. For the majority of the US, that means houses with ARV's from $75,000 - $150,000. Other markets in the US and Canada could go as high as $300,000 - $400,000, but you should still stay at the bottom of your market where people who can qualify for loans want to live.
- **Search Words** – Bank owned, foreclosure, REO, needs work, TLC, special addendum required, etc. – your agent will know them and use them.
- **Time On Market** – The best deals are not those fresh on the market. The longer they've been listed, the better prospect they are and the better price you can get. Once the market has played out for two to four months, the banks are much more flexible and will move the houses, even at prices less than they were offered months or even weeks ago.
- **Square Foot Multiplier** – Here's an easy trick I learned. If the average house in a neighborhood in excellent condition sells for about $100 per foot, ask your agent to pull up all listings less than say $70 a foot. That means the house or the seller likely have a problem.

Keeping Good Agents

Here's a list of things not to do:

- Never disclose you must sell to raise the money.
- Do not ask them to show you houses. You don't need them to waste their time. You can see them for yourself.
- Don't insist on using your agreement. Use theirs or the lenders or you lose.
- Don't get cheap on the deposit. It's $500 - $1,000, up to $2,000. Any less may not meet seller's requirement and indicates you're broke. <u>You only need one deposit with multiple offers until your second offer gets accepted.</u>
- Don't remove their signs or change locks behind their lock box.
- Don't keep the house off the market for the full escrow period if it becomes obvious you won't close. Tell him/her you can't close and why and release it. Yes, you will lose your deposit. It's the honorable thing to do and you may save the relationship in the process.
- Don't build your business with only one agent in your life. One is the worst number is business.
- Don't let the agent push you into doing things you don't want to do, such as close early. You tell them when to close.
- Don't get cocky and think you have all the answers or assume because an agent wants to do things different than your norm that they are wrong and you're right. Shut up and listen and you'll learn a lot from people who spend their lives with real estate. This includes the right vendors to make your life easier.

Auctions – Online And Offline

In many cities there are frequent auctions of bank owned properties. These should be made a part of any serious wholesalers business for as long as they continue.

Go to Google and locate auction companies in your area and get on their email and mailing list.

When one is coming up, pull up all the properties in your area and do the same due diligence you would for any other house. Here are the steps for an offline auction:

1. Pick the houses that interest you by area and price range.

2. Have someone visit each to get photos and general repair estimate (coming up), and pull comps to determine the after repaired value.

3. Write down your absolute maximum bid on each (coming up).

4. Attend the auction with certified funds for deposits and proof of funds (coming up). Follow the instructions in the auction brochure.

5. Never bid until the bidding has almost stopped and then in the minimum increment.

Tips

- Do not leave early unless you've bought all you want. Even then you can leave the auctioneer a bid on all unsold houses and will likely get one or more accepted after the sale, especially if you're bidding on several owned by one lender.

- Do not bid on houses you haven't done due diligence. This one will burn you. Let it go.
- Do not get caught up in the auction frenzy and pay too much. The spotters are not your friend.
- Don't forget to add the buyer's premium to your bid. They will.
- Many contracts will contain a "subject to" addendum which gives the bank 15 days to turn down your bid even if you are high bidder – you will lose some.

Online Auctions

The same rules apply as offline except there is no place to attend the auction. All bidding is done online over a period of several days. This takes the pressure off you but opens it up to the world to bid.

Today there are constant online auctions in cities of size and bargains are sold every week.

Do your homework and enter the bidding in the last hour of the last day if the high bid is still below your max. You won't be alone. You'll see several bids on the last day.

This makes a case for you to wait until the day of or day before to inspect any auction house. Why waste the time if someone has already paid too much?

Step 5: Prescreening Your Prospects

Actually, you have already done most of the necessary prescreening if you've followed the previous steps as I've laid them out. However, there are things we need to discuss to ensure you have a clear understanding of what constitutes a good prospect. I've thoroughly covered this in the course. It would pay you to review the course again instead of chasing dead end leads. In a nutshell, a good prospect to be purchased wholesale will have the following components:

- Probably vacant (not mandatory)
- Probably needs a lot of repairs (not mandatory but these are usually good prospects)
- Asking price is at least 30% below ARV
- Has a lot of equity or is free and clear (mandatory unless you intend to short sale)
- At least 850 square feet and preferably 3 or more bedrooms

Once you have compiled a list of suspects, the next step is to whittle the list down to the best prospects as described in your course as well as above. We don't have time to chase dead ends. Our objective is to deal only with the prospects that have the best chance of success. The better you get at prescreening the easier your job will become. You'll begin making more money with less work. However, I'm fully aware that all crafts have to be learned by doing things wrong so you can learn to do them right. In the beginning you'll spend time on unqualified prospects. It won't hurt you a bit as long as you don't lose sight of the main objective.

Weed Out And Deal With Only Motivated Sellers, Unmotivated Sellers Will Quickly Destroy Your Confidence.

With FSBO's, when you've found a motivated seller you'll know it. You'll see a whole different attitude. Many times they will ask you if you can help them, not grill you on why they should allow you to buy their home. Just remember, you are in control, you don't beg, drag or plead with anyone. They are either in or out. Your job is to prescreen, not to try making an unmotivated seller motivated. Make or take the call, get facts and control the conversation in a polite and friendly manner. Those who want to play will surface quickly. Remember, some will, some won't, so what, someone's waiting. If speaking to people is a problem for you, you have two choices. Get someone else to do it or make offers only on listed junkers. This way the agent makes the contact with the seller.

Before proceeding to the next step, you should have a pile of prescreened prospects amassed from a heap of suspects. Remember, prescreened prospects only. If at this point you don't feel you have any worthwhile prospects to work with, don't move on until you do. I'd rather you stop here and keep looking than get beat up by an unmotivated seller. If you're a brand new real estate entrepreneur my experience tells me you can't take much rejection before you convince yourself there aren't any motivated sellers out there.

There are plenty! More than you will ever come in contact with in a lifetime of looking. However, you must look in the right place or the right brand of prospects. Remember, it only takes one little wholesale deal to put several thousand dollars in your pocket. Once you master these steps, you can do several deals per month or just an occasional one. It all starts with:

Locating And Prescreening Prospects

Your prospects will either be **FSBO's** or **Listed**.

For FSBO's, use the script on the next page.

For listed properties, the biggest qualifier I use is all the houses that are listed well below the ARV, at least 30%. Some are listed at MAO or below (coming up). I will instruct the Realtor to seek out only these prospects but there are other considerations to help the search.

- Area I want to work
- Price range I want to stay in
- Search words such as foreclosure, bank owned, needs work, TLC and many more any REO Realtor will know
- Time on market. The longer it's been for sale the easier it is to buy.
- Price per square foot search. If the average house in a neighborhood in good condition is selling for $100 per square foot, I may ask the agent to pull up all houses listed at $70 per square foot or below. That means the house or seller likely has a problem.

Before you can prescreen any house, pretty or ugly, you must know:

- The ARV – After Repaired Value
- The asking price, only seller knows.
- The loan balance, only the seller knows.
- Approximate repair cost, your best guess.

The ARV is easy to obtain and on listed properties the agent will get for you.

The asking price is on all listings and if it's bank owned there is no loan.

The repairs you can do from a photo with a little practice and a visit to Quick Start Real Estate School. See the resource section.

Script For Prescreening FSBO's That Appear To Be Free And Clear Or With Small Loan Balances

"<u>First Name</u>, if I pay you all cash and close quickly, what's the least you can accept?"

(Regardless of the answer):
"Is that the best you can do?"

(Regardless of the answer):
"So you're saying if I don't pay you __________ you won't sell me the house?"

- If you like the answer, get a contract
- If you don't like the answer, leave the door open

"Well, I'm sorry but I just can't pay you what you're asking. Let me know if things change."

Step 6: Constructing Offers

By now you should have a list of ugly house prospects. When constructing offers on junkers the formula discussed in the course must be understood and applied. Review it until you feel comfortable with how to arrive at an offer based on the information you've collected on the house. To do this you must know the ARV and an approximate amount needed for repairs. Neither needs to be exact, but both should be in the ballpark. The ARV should be within 10% plus or minus and repairs can be as far off as 50% on most houses.

I've discussed how to determine the ARV in this guide. I will also cover repairs. If you don't feel comfortable estimating repairs after listening to the course, remember, you don't have to be that close. A few thousand dollars off will not destroy the deal if you make offers as I've taught you to do using my system. You'll learn as you grow. We've discussed ARV. Now let's cover estimating repairs and what to offer.

General Rehab Costs For Major Components

The following estimated rehab costs are based on a 1,200 square foot, single story house. These costs are only a guideline. If you intend to buy and rehab the house you should get repair estimates before you close. These numbers include materials and labor.

- **Floor Covering** – $1.50 per square foot, regardless of whether it's carpet, linoleum, or hardwood refinishing, $13.50 per square yard.
- **Windows** – $150 in the south and $200 in the north. The windows actually cost $60 - $80 each.
- **Interior Paint** – $1,000 should cover any 1,200 square foot interior.
- **Exterior Paint** – $2,000 for the whole house including trim.
- **Roof** – $3,500 should totally replace our model roof. This does not include a lot of rotten wood replacement.
- **Central Heat And Air** – $3,500 with all new equipment and duct work. This does not include changing panel box.
- **Kitchen** – $1,200 - $1,500 assuming you're gutting the kitchen and replacing 6' of upper and lower cabinets, sink, counter top, faucet and labor. This does not include appliances.

- **Bath** – $1,200 assuming you're gutting the bath and replacing tub, toilet, sink and cabinet and wall fixtures. This includes a fiberglass tub unit and/or the wall surrounding the tub if a one piece unit won't fit.
- **Electrical** – $1,000 - $2,000 will replace the panel box with a 200 amp system in most areas. This is usually the biggest electrical expense. All the rest will normally be done by your general rehabber – items like fans, lights and plug replacements.
- **Plumbing** – the only plumbing in our model is kitchen, bath, water heater and pipes. Kitchen and bath are already covered above. A water heater will cost about $400 installed. Pipes are not a major component and are very inexpensive to replace.
- **Garage Doors** – $500 for a single, $1,000 for a double, installed.
- **Concrete** – About $4 per square foot.
- **Asphalt** – About $1.50 per square foot.
- **Rotten Wood** – This is not a major component unless there's an excessive amount of damage. The cost will be in the hundreds as a rule, not the thousands. Wood is relatively cheap to fix. Don't let it scare you away.
- **Miscellaneous** – $1,000 minimum, but usually runs about 20% of total rehab cost. This can only be done on a case by case basis.
- **Foundation** – There's no way to put a figure to this because of the varying degree of situations. However, foundation problems usually cost a fraction of what they appear. This creates opportunity for you and should not scare you off. Once you get a feel for what foundation repairs really cost, you'll probably be looking for them.

Note

These numbers are based on a 1,200 square foot, single story house. You must adjust upward for larger houses.

Inspection Checklist

Most Common Major Components		Estimated Cost
W	Windows	$200 Each
E	Electric	$1,500 Panel Box
Make	Misc.	20% Of The Total Of Major Components
Killer	Kitchen	$1,800 If Gutted
Bucks	Baths	$1,000 Guest, $2,000 For Master, Gutted
With	Wood	Case By Case
C	Carpet	$1.50 Per Sq. Ft. = $13.50/YD
R	Roof	$3,500 - $4,000 To Remove & Replace
A	A/C – Heat	$3,000 - $3,500 Central Heat & Air
P	Paint	$3,000 Interior & Exterior
P	Plumbing	Case By Case – Usually Simple Repairs

Additional Components

Basement	Case By Case
Foundation	Case By Case – Usually Less Than Appears
Garage Doors	$400 Single/$800 Double – Without Opener
Pool	$3,000 - $4,000 Vinyl Liner Or Repaint And $700 For New Equipment Plus Marcite!
Driveways	$4 Per Sq. Ft. Asphalt

Notice

These numbers are based on a 1,200 square foot single story house and must be adjusted upward as size increases. It would be reasonable to assume a 50% increase in total repair cost if the house is 1,800 square feet (50% larger).

Miscellaneous Repair List

Interior

Mini Blinds
Glass
Doors and Hardware
Light Fixtures
Wall Repair
Wall Paper
Ceiling Fans
Range Hood
Faucets
Minor Plumbing
Dishwasher
Shower Curtains
Medicine Cabinets
Toilets
Electrical Switch Plates
Broken Tiles
Minor Repairs
Hot Water Heater
Appliances

Exterior

Screens
Landscaping
House Numbers
Mailboxes
Minor Wood Repair
Termite Treatment
Roof Repair
Gutters
Trash Removal
Outbuildings
Pavement Repair

Do not try to estimate these items individually. This list serves only as a guideline of items we try to classify as miscellaneous. Usually the miscellaneous estimate will fall between 15 – 25% of all other repair costs. This is strictly case by case.

Determining The MAO
(Maximum Allowable Offer)

All Cash Offers (ONLY)
(DOES NOT APPLY) To Pretty Houses
Where You Take Over Debt

	% of ARV	Example
1. Determine the After Repaired Value		$100,000
2. Subtract the Repair Costs	Can't use %	- $10,000
3. Subtract the Purchase Costs (This does not include down payment or purchases prices.)	1%	- $ 1,000
4. Subtract the Holding Costs (Add payments when applicable.)	3%	- $ 3,000
5. Subtract the Sales Costs (3% without Realtor)	3%	- $ 3,000
6. Subtract minimum acceptable Profit	20%	- $20,000
7. Subtract a Hedge Factor (Approx. 3% - 5% of sale price.)	3%	- $ 3,000
8. The result will be your Maximum Allowable Offer. (MAO). THIS IS NOT YOUR OFFER, but only a threshold you can not cross without sacrificing profit.	30%	**$ 60,000**

Simple Formula

ARV x 70% - Repairs = MAO

Never Pay MAO

So What Do I Pay?

It depends!

- The more repairs, the less percentage of ARV you should pay.
- The nicer the neighborhood, the closer to MAO.
- The more the supply, the lower the offer.
- The less competition, the lower the offer, i.e. ant farm and FSBO's. The easier they are to find, the more they cost, i.e. MLS listings and internet houses.
- Your personal objectives and exit plan and willingness to work harder to get at the best deals.
- Canadians will pay closer to MAO than U.S. investors will.

In today's market in the U.S., I would not exceed 80% of MAO and many offers will be less in lower quality areas.

In Canada, I would not exceed 90% of MAO.

Remember, MAO Only Applies To All Cash Offers.

Step 7: Presenting Offers

If you're working with agents you should only be dealing with ugly houses or short sales. In this case presenting offers is easy. They will do it for you. Your job is to locate and prescreen the prospect and then tell the agent what you'll pay. They'll do the rest.

Never tell an agent you need a buyer before you can close. This is an instant deal killer. If the agent suspects you don't have funds available they will be very reluctant to work with you. You must act credible and present your offer with conviction. Act like you have the money, even if you don't. If agents become a problem you'd rather not deal with then simply don't make offers on listed houses. There's a whole city full of FSBO's just waiting for you.

If the house is listed be prepared to put up an earnest money deposit with a minimum of $500 to a maximum of $2,000. If any more than this is required, you may elect not to deal with the property or agent until you get a little more experienced.

When making offers with FSBO's on junkers the terms are simple. Will the seller accept what you're willing to pay? If so, write up an agreement. If not, what will they take and will they finance for you or is all cash the only offer they will consider? This can be done in person or by phone. If the seller is out of town then obviously it will be by phone.

If your offer is orally accepted you must get it in writing as fast as possible and send the seller a $10 deposit for consideration. Do not go to the next step until the signed contract is in your hands.

Before sending the contract to the seller, ask if he/she is the only one on title. If not, all sellers must sign.

If one is deceased, ask seller to return a copy of the death certificate and a copy of their deed with the signed contract. Send both to your closing agent in the next step.

Be sure to send the seller a copy of the agreement after they sign and return to you.

Where Do I Get Proof Of Funds?

In today's market you will not buy bank owned properties without proof of funds. You will need it with all MLS and auction properties.

You can use any bank statement from a relative or friend or even a private lender. The statement usually does not have to come from the buyer's account.

You may also use IRA accounts, stock or money market accounts.

An additional source is a service provided by a few companies who will provide proof of funds for a small fee. One such source is found in the resource section of this manual and it's an online application so you can provide a POF letter at will.

If you can't provide proof of funds or use the service provided here, your only choices are to:

- Make an offer on FSBO's only.
- Get a partner to supply POF and maybe even the capital to close if needed.

Step 8: Preparing A Standard Purchase And Sales Agreement

If the property is listed, this will be the agent's responsibility. All you need to know is the offering price, size of deposit you're offering, costs you're willing to pay, buyer's name and time you're asking to close. He/she will do the rest. You'll pay customary closing costs and need 30 days to close. You should meet little or no resistance to these guidelines in most cases. If you meet resistance, it will probably be the deposit. Some agents will want more. In today's market, you will need proof of funds to attach to most listed bank owned houses.

Creating your own agreement to buy junkers from FSBO's may seem scary in the beginning. However, if you'll take time to read over the agreement in your course, I think you'll find them manageable. All you do is fill in the blanks based on your understanding of your agreement with the seller. It's always a good idea to have the agreements you intend to use checked by a professional before using them. Some states may require an additional disclosure form or have some provision that should be in your agreement.

Presenting offers and preparing agreements will be quick and easy to learn, but can only be mastered with practice. When the seller is ready to complete the paperwork, you should be prepared to do so on the spot. This involves producing your agreement and briefly discussing the context.

You must make sure all owners of the property sign to have a valid agreement. The best way to verify ownership is to see the seller's deed or other legal documents showing ownership.

Always retain the original agreement and leave the seller a copy. It's not good practice to write up two original contracts by hand.

ALL CASH
Buying A Junker

Standard Purchase and Sales Agreement

Parties ____You____ (BUYER) and ____Seller____ (SELLER) which terms may be singular or plural and will include the heirs successors, personal representatives and assigns of Seller and Buyer, hereby agree that Seller will sell and Buyer will buy the following property, upon the following terms and conditions if completed or marked. In any conflict of terms or conditions, that which is added will supersede that which is printed or marked.

The Property is in ____Clark____ County, and is described as follows (If lengthy, attach legal description):
Lot 12, Block 3 Hartley S/D
Address ____1034 Peach St.____ ZIP________

It is understood that the Property will be conveyed by General Warranty Deed (unless otherwise required) subject to taxes, existing zoning (unless otherwise specified in paragraph 16), covenants, restrictions and easements of record.

1. Total Purchase Price to be paid by Buyer is payable as follows:
   A. Binder deposit which will remain as a binder until closing, unless sooner forfeited or returned, according to the provisions in this Agreement — $ 10.00

   B. Additional binder deposit due within ______days after date of this agreement — $________

   C. Balance due at closing (not including Buyer's closing cost, prepaid items or prorations) in U.S. cash or locally drawn certified or cashiers check approx. ____________ exactly ___✓___ — $ 79,990.00

   D. Proceeds of a new loan to be executed by Buyer to any lender other than Seller — $________

   E. Purchase money loan to Seller on terms set forth in Paragraph 2C — $________

   F. Other financing ________________ — $________

   G. Existing mortgage balance encumbering the Property to be assumed by Buyer (approximately) — $________

   H. Total Purchase Price approx. ______________ exactly ___✓___ — $ 80,000.00

2. Financing: If buyer does not obtain the required financing, but otherwise complies with the terms hereof, the binder deposit less sales and loan processing costs incurred, will be returned to the Buyer.
   A. [ ] Application: The application for the mortgage described in paragraph 1D will be made with lender selected by [ ] Seller of [ ] Buyer. Unless such mortgage loan is approved without continued contingencies other than those elsewhere covered in this agreement within _____days of the date of acceptance of this agreement, Seller and Buyer will have the right to terminate this agreement, and Buyer will return to Seller all the title evidence and surveys received from Seller. Buyer will make application for financing within ____days of the date of acceptance of this agreement and in a timely manner furnish any and all credit, employment, financial and other information required by the lender. In the event the original loan application is denied, Buyer, if requested by Seller, will reapply within _____ days of such request at an alternate institution.

   B. [ ] Loan Assumption: Buyer understands that interest [ ] will [ ] will not, escalate and is [ ] variable [ ] fixed rate. Buyer will within ___days make required application and timely provide qualifying information as required by lender. Buyer's obligation to close is contingent on lender's approval of the assumption within _____days of the date of acceptance of this agreement.

   C. [ ] Seller: The balance due to Seller will be evidenced by a negotiable promissory note of Borrower, secured by a valid purchase money____ mortgage or Trust Deed on the Property and delivered by Buyer to Seller dated the date of closing bearing annual interest rate of ______ % and payable $_______ per_____ for [ ] ___ years [ ] ____ months. Privilege of prepayment [ ] does apply [ ] does not apply. The loan will be ____due on sale ___ not due on sale of Property.

3. Buyer Will Pay:
Closing Costs [X] Recording fees [ ] Note stamps [ ] Intangible tax [ ] Credit reports [ ] Loan transfer and assumption charges [ ] VA funding fee [ ] Loan origination fee [ ] Loan insurance premium [ ] Loan discount not to exceed __________ [ ] Transfer Tax [ ] Wood Destroying Organism Report [ ] Appraisal [ ] Survey [ ] Title Insurance Policy __________.

4. Seller Will Pay:
A. Closing Costs [X] Transfer tax [X] Fee Title insurance policy [ ] _________Attorney's fee [ ] Real estate brokerage fee [ ]Loan discount not to exceed _________ [ ]Satisfaction and recording fee [ ] Repairs or replacements, in addition to those in paragraph 9, not to exceed $_____________________ [ ] Wood destroying organism report [ ] Appraisal fee [ ] Survey [ ] Other______________________________________

B. All other charges required by lender which Buyer is prohibited from paying by law or regulation.

C. All mortgage payments or condominium and association fees will be current at Seller's expense at the time of closing.

5. Payment of Expenses: If Buyer fails to perform, all loan and sale processing and closing costs incurred, whether the same were to be paid by Seller or Buyer will be the responsibility of the Buyer, with costs deducted from binder deposit. If Seller fails to perform, all loans, sales processing and closing costs incurred whether same were to be paid by Seller or Buyer will be the responsibility of Seller, and Buyer will be entitled to the return of the Binder deposit This will include, but not be limited to the transaction not being closed because Seller is unable to complete the transaction for a qualified Buyer, or because the property does not appraise for an amount sufficient to enable the lender to make the required loan, or because Seller elects not to pay for the excess amount in paragraphs 4 (with respect to repairs), 9, or 11, or because the zoning is not as required in paragraph 16 or because Seller cannot deliver marketable title.

6. Prorations: All taxes, rentals, condominium or association fees, prepaid hazard insurance premiums (if assumed), monthly mortgage insurance premiums and interest on loans will be prorated as of the date of closing.

7. Title Evidence: Within 5 days [ ] after acceptance [ ] after date of satisfaction of all conditions in paragraph 19. Seller will deliver to Buyer or closing attorney [ ]Title insurance commitment for an owner's policy in the amount of the purchase price. Any expense of curing title including, but not limited to legal fees, discharge of liens and recording fees will be paid by Seller.

8. Survey: Within _____days [ ] after date of acceptance [ ] after date of satisfaction of all conditions on paragraph 19, Seller will deliver to Buyer or closing attorney [ ]A new staked survey dated within 3 months of closing showing all improvements now existing thereon and certified to Buyer, lender and the title insurer [ ] A copy of a previously made survey of the Property showing all improvements now existing thereon.[ ] No survey is required.

9. Wood Destroying Organism Report: "Wood Destroying Organism" means any arthropod or plant life which damages a structure. Buyer may have property inspected by a Certified Pest Control Firm to determine whether there is any visible active wood destroying organism infestation or visible existing structural damage from wood destroying organisms to the improvements. If Buyer is informed of either or both of the foregoing, Seller will have seven (7) days from receipt of written notice thereof within which to have all such wood destroying organism damages whether visible or not inspected and estimated by a licensed building or general contractor. Seller will pay costs of treatment and repairs of all structural damage up to one percent (1 %) of the purchase price. If such costs exceed the amount agreed to be paid by Seller and Seller declines to treat and repair, Buyer will have the option of (a) terminating this Agreement or, (b) proceeding with the transaction in which event Seller will bear costs equal to one percent (1 %) of the purchase price.

10. Title Examination and Time for Closing:
A. If title evidence and survey, as specified above, show Seller is vested with a marketable title, subject to the usual exceptions contained in title insurance commitments (such as exceptions for survey, current taxes, zoning ordinances, covenants, restrictions and easements of record), the transaction will be closed and the deed and other closing papers delivered on or before [ ] __________ [ ] 30 days after the date of acceptance [ ] _____________days after date of satisfaction of all conditions in paragraph 19 unless extended by other conditions of this Agreement or this agreement is cancelled by the Buyer.

B. If title evidence or survey reveal any defects which render the title unmarketable, Buyer will have 7 days from receipt of title commitment and survey to notify Seller of such title defects and Seller agrees to use reasonable diligence to cure such defects at Seller's expense and will have 30 days to do so, in which event this transaction will be closed within 10 days after delivery to Buyer of evidence that such defects have been cured. Seller agrees to pay for and discharge all due or delinquent taxes, liens and other encumbrances, unless otherwise agreed. If Seller is unable to convey to Buyer a marketable title, Buyer will have the right to terminate this agreement at the same time returning to Seller all title evidence and surveys received from Seller, or Buyer will have the right to accept such title as Seller may be able to convey and to close this transaction upon the terms stated herein, which election will he exercised within 10 days from notice of Seller's inability to cure.

11. Loss or Damage: If the property is damaged by fire or other casualty prior to closing, and cost of restoration does not exceed 3% of the assessed valuation of the improvements located on the Property, cost of restoration will be an obligation of the Seller and closing will proceed pursuant to the terms of this Agreement with cost thereof escrowing at closing. In the event cost of restoration exceeds 3% of the assessed valuation of the improvements and the Seller declines to repair or restore, Buyer will have the option of either taking the Property as is, together with either the said 3% or any insurance proceeds payable by virtue of such loss or damage, or of canceling this Agreement.

12. Seller agrees to deliver the Property in its PRESENT AS IS CONDITION except as otherwise specified herein. Seller does hereby certify and represent that Seller has legal authority and capacity to convey the property with all improvements. Seller further certifies and represents that Seller knows of no latent defects to the property and knows of no facts materially affecting the value of the property except the following: Description of problems: ____________________________________ Buyer has inspected the property and HAS NOT RELIED UPON ANY REPRESENTATIONS MADE BY ANY REAL ESTATE AGENT in describing the property, and Buyer accepts the property in its PRESENT AS IS CONDITION, except as otherwise specified herein.

13. Occupancy: [x] Seller represents that there are no parties in occupancy other than Seller. Buyer will be given occupancy at closing unless otherwise specified herein ____

[ ] Buyer understands that property is available for rent or rented and the tenant may continue in possession following closing unless otherwise agreed in writing. Deposits will he transferred to Buyer at closing.

14. Personal Property: included in the purchase price are all fixed equipment including ceiling fans, drapery, hardware, attached lighting fixtures, mailbox, fence, plants and shrubbery as now installed on the property and these additional items range, refrigerator
Items specifically excluded from this agreement: ____.

15. Default and Attorney's Fees: If Buyer defaults on this agreement, all deposits will be retained by the Seller as full settlement of any claim, whereupon Buyer and Seller will be relieved of all obligations under this agreement. If Seller defaults under this Agreement, the Buyer may seek specific performance or elect to receive the return of the Buyers deposit(s) without thereby waiving any action for damages resulting from Seller's breach. In connection with any litigation arising out of this Agreement, the prevailing party will be entitled to recover all costs including a reasonable attorney's fee.

16. [x] Zoning and Restrictions: Unless the Property is zoned SF and can he legally used for SF use, or if there is notice of proposed zoning changes, deed or other restrictions that could prevent such use at time of closing, Buyer will have the right to terminate this Agreement. Buyer will have 10 days from acceptance to verify the existing zoning and current proposed changes, and deliver written notice of objections to Seller or be deemed to have waived objections under this paragraph.

17. The offer of BUYER shall terminate if SELLER has not indicated his acceptance of this Agreement by signing and delivering same or telegraphing acceptance to BUYER or submitting agent before ________:01[ ]AM.[ ]PM., Date ________.

18. Additional Terms, Conditions or Addenda (lettered A.B.C.D.etc.)

____

____

19. Timing: The timing of paragraphs 7, 8, 9, and 10(A) will become operable after satisfaction of paragraph 2, if applicable, and those additional conditions lettered in Paragraph 18.

20. There are no other agreements, promises or understandings between these parties except as specifically set forth herein. This legal and binding agreement will be construed under______ Law, will not be recorded and if not understood, parties should seek competent legal advice. Seller and Buyer give real estate agent authorization to advise surrounding neighbors who will be the owner of this property. TIME IS OF THE ESSENCE IN THIS AGREEMENT.

21. Signed sealed on the date herein stated

______________________	____________	You
Buyer	Date of Offer	Buyer
Seller	____________	______________________
Seller	Date of Acceptance	Seller

[ ] Agent [_] Seller, by the signature below, acknowledge receipt of $ 10.00 [ ]Cash [X] Check, as binder deposit, which is the amount mentioned in paragraph 1 A of this Agreement. It will be deposited and held in escrow pending disbursement according to terms hereof, together with all additional binder deposits escrowed by terms of this agreement.

______________________	Seller
Agent	Seller

ALL CASH

Selling A Junker You Own

Standard Purchase and Sales Agreement

Parties ________Your Buyer____________(BUYER) and __________You______________(SELLER) which terms may be singular or plural and will include the heirs successors, personal representatives and assigns of Seller and Buyer, hereby agree that Seller will sell and Buyer will buy the following property, upon the following terms and conditions if completed or marked. In any conflict of terms or conditions, that which is added will supersede that which is printed or marked.

The Property is in ___Clark_____County, and is described as follows (If lengthy, attach legal description):
____Lot 12, Block 3, Hartley, S/D____________________________________
Address __1034 Peach St.__________________________________ ZIP________________

It is understood that the Property will be conveyed by General Warranty Deed (unless otherwise required) subject to taxes, existing zoning (unless otherwise specified in paragraph 16), covenants, restrictions and easements of record.

1. Total Purchase Price to be paid by Buyer is payable as follows:
   A. Binder deposit which will remain as a binder until closing, unless sooner forfeited or retuned, according to the provisions in this Agreement $____500.00____

   B. Additional binder deposit due within ______days after date of this agreement $_______________

   C. Balance due at closing (not including Buyer's closing cost, prepaid items or prorations) in U.S. cash or locally drawn certified or cashiers check approx. ____________ exactly ____X_______ $__89,500.00__

   D. Proceeds of a new loan to be executed by Buyer to any lender other than Seller $_______________

   E. Purchase money loan to Seller on terms set forth in Paragraph 2C $_______________

   F. Other financing ____ $_______________

   G. Existing mortgage balance encumbering the Property to be assumed by Buyer (approximately) $_______________

   H. Total Purchase Price approx. ________________ exactly ____X_______ $__90,000.00__

2. Financing: If buyer does not obtain the required financing, but otherwise complies with the terms hereof, the binder deposit less sales and loan processing costs incurred, will be returned to the Buyer.
   A. [ ] Application: The application for the mortgage described in paragraph 1D will be made with lender selected by [ ] Seller of [ ] Buyer. Unless such mortgage loan is approved without continued contingencies other than those elsewhere covered in this agreement within _____days of the date of acceptance of this agreement, Seller and Buyer will have the right to terminate this agreement, and Buyer will return to Seller all the title evidence and surveys received from Seller. Buyer will make application for financing within ____days of the date of acceptance of this agreement and in a timely manner furnish any and all credit, employment, financial and other information required by the lender. In the event the original loan application is denied, Buyer, if requested by Seller, will reapply within _____ days of such request at an alternate institution.

   B. [ ] Loan Assumption: Buyer understands that interest [ ] will [ ] will not, escalate and is [ ] variable [ ] fixed rate. Buyer will within ___days make required application and timely provide qualifying information as required by lender. Buyer's obligation to close is contingent on lender's approval of the assumption within _____days of the date of acceptance of this agreement.

   C [ ]Seller: The balance due to Seller will be evidenced by a negotiable promissory note of Borrower, secured by a valid purchase money____ mortgage or Trust Deed on the Property and delivered by Buyer to Seller dated the date of closing bearing annual interest rate of ______ % and payable $_______ per_____for [ ] ___years [ ] ____ months. Privilege of prepayment [ ] does apply [ ] does not apply. The loan will be ____due on sale ___ not due on sale of Property.

3. Buyer Will Pay:

Closing Costs [X] Recording fees [ ] Note stamps [ ] Intangible tax [ ] Credit reports [ ] Loan transfer and assumption charges [ ] VA funding fee [ ] Loan origination fee [ ] Loan insurance premium [ ] Loan discount not to exceed __________ [X] Transfer Tax [ ] Wood Destroying Organism Report [ ] Appraisal [ ] Survey [X] Title Insurance Policy __________.

4. Seller Will Pay:

A. Closing Costs [ ] Transfer tax [ ] _________Title insurance policy [ ] __________Attorney's fee [ ] Real estate brokerage fee [ ]Loan discount not to exceed _________ [X]Satisfaction and recording fee [ ] Repairs or replacements, in addition to those in paragraph 9, not to exceed $____________________ [ ] Wood destroying organism report [ ] Appraisal fee [ ] Survey [ ] Other_____________________________________

B. All other charges required by lender which Buyer is prohibited from paying by law or regulation.

C. All mortgage payments or condominium and association fees will be current at Seller's expense at the time of closing.

5. Payment of Expenses: If Buyer fails to perform, all loan and sale processing and closing costs incurred, whether the same were to be paid by Seller or Buyer will be the responsibility of the Buyer, with costs deducted from binder deposit. If Seller fails to perform, all loans, sales processing and closing costs incurred whether same were to be paid by Seller or Buyer will be the responsibility of Seller, and Buyer will be entitled to the return of the Binder deposit. This will include, but not be limited to the transaction not being closed because Seller is unable to complete the transaction for a qualified Buyer, or because the property does not appraise for an amount sufficient to enable the lender to make the required loan, or because Seller elects not to pay for the excess amount in paragraphs 4 (with respect to repairs), 9, or 11, or because the zoning is not as required in paragraph 16 or because Seller cannot deliver marketable title.

6. ~~Prorations: All taxes, rentals, condominium or association fees, prepaid hazard insurance premiums (if assumed), monthly mortgage insurance premiums and interest on loans will be prorated as of the date of closing.~~

7. Title Evidence: Within _5_ days [X] after acceptance [ ] after date of satisfaction of all conditions in paragraph 19. Seller will deliver to Buyer or closing attorney [ ]Title insurance commitment for an owner's policy in the amount of the purchase price. Any expense of curing title including, but not limited to legal fees, discharge of liens and recording fees will be paid by Seller.

8. Survey: Within _____days [ ] after date of acceptance [ ] after date of satisfaction of all conditions on paragraph 19, Seller will deliver to Buyer or closing attorney [ ]A new staked survey dated within 3 months of closing showing all improvements now existing thereon and certified to Buyer, lender and the title insurer [ ]A copy of a previously made survey of the Property showing all improvements now existing thereon.[ ] No survey is required.

9. ~~Wood destroying Organism Report: "Wood Destroying Organism" means any arthroped or plant life which damages a structure. Buyer may have property inspected by a Certified Pest Control Firm to determine whether there is any visible active wood destroying organism infestation or visible existing structural damage from wood destroying organisms to the improvements. If Buyer is informed of either or both of the foregoing, Seller will have seven (7) days from receipt of written notice thereof within which to have all such wood destroying organism damages whether visible or not inspected and estimated by a licensed building or general contractor. Seller will pay costs of treatment and repairs of all structural damage up to one percent (1 %) of the purchase price. If such costs exceed the amount agreed to be paid by Seller and Seller declines to treat and repair, Buyer will have the option of (a) terminating this Agreement or, (b) proceeding with the transaction in which event Seller will bear costs equal to one percent (1 %) of the purchase price.~~

10. Title Examination and Time for Closing:

A. If title evidence and survey, as specified above, show Seller is vested with a marketable title, subject to the usual exceptions contained in title insurance commitments (such as exceptions for survey, current taxes, zoning ordinances, covenants, restrictions and easements of record), the transaction will be closed and the deed and other closing papers delivered on or before [ ] __________ [X] _15_ days after the date of acceptance [ ] _____________days after date of satisfaction of all conditions in paragraph 19 unless extended by other conditions of this Agreement or this agreement is cancelled by the Buyer.

B. If title evidence or survey reveal any defects which render the title unmarketable, Buyer will have 7 days from receipt of title commitment and survey to notify Seller of such title defects and Seller agrees to use reasonable diligence to cure such defects at Seller's expense and will have 30 days to do so, in which event this transaction will be closed within 10 days after delivery to Buyer of evidence that such defects have been cured. Seller agrees to pay for and discharge all due or delinquent taxes, liens and other encumbrances, unless otherwise agreed. If Selleris unable to convey to Buyer a marketable title, Buyer will have the right to terminate this agreement at the same time returning to Seller all title evidence and surveys received from Seller, or Buyer will have the right to accept such title as Seller may be able to convey and to close this transaction upon the terms stated herein, which election will he exercised within 10 days from notice of Seller's inability to cure.

11. Loss or Damage: If the property is damaged by fire or other casualty prior to closing, and cost of restoration does not exceed 3% of the assessed valuation of the improvements located on the Property, cost of restoration will be an obligation of the Seller and closing will proceed pursuant to the terms of this Agreement with cost thereof escrowing at closing. In the event cost of restoration exceeds 3% of the assessed valuation of the improvements and the Seller declines to repair or restore, Buyer will have the option of either taking the Property as is, together with either the said 3% or any insurance proceeds payable by virtue of such loss or damage, or of canceling this Agreement.

12. Seller agrees to deliver the Property in its PRESENT AS IS CONDITION except as otherwise specified herein. Seller does hereby certify and represent that Seller has legal authority and capacity to convey the property with all improvements. Seller further certifies and represents that Seller knows of no latent defects to the property and knows of no facts materially affecting the value of the property except the following: Description of problems: No Warranties Buyer has inspected the property and HAS NOT RELIED UPON ANY REPRESENTATIONS MADE BY ANY REAL ESTATE AGENT in describing the property, and Buyer accepts the property in its PRESENT AS IS CONDITION, except as otherwise specified herein.

13. Occupancy: [X] Seller represents that there are no parties in occupancy other than Seller. Buyer will be given occupancy at closing unless otherwise specified
herein ____

[ ] Buyer understands that property is available for rent or rented and the tenant may continue in possession following closing unless otherwise agreed in writing. Deposits will he transferred to Buyer at closing.

14. Personal Property: included in the purchase price are all fixed equipment including ceiling fans, drapery, hardware, attached lighting fixtures, mailbox, fence, plants and shrubbery as now installed on the property and these additional items N/A
Items specifically excluded from this agreement: ________________________________.

15. Default and Attorney's Fees: If Buyer defaults on this agreement, all deposits will be retained by the Seller as full settlement of any claim, whereupon Buyer and Seller will be relieved of all obligations under this agreement. If Seller defaults under this Agreement, the Buyer may seek specific performance or elect to receive the return of the Buyers deposit(s) without thereby waiving any action for damages resulting from Seller's breach. In connection with any litigation arising out of this Agreement, the prevailing party will be entitled to recover all costs including a reasonable attorney's fee.

16. [ ] Zoning and Restrictions: Unless the Property is zoned _______ and can he legally used for________use, or if there is notice of proposed zoning changes, deed or other restrictions that could prevent such use at time of closing, Buyer will have the right to terminate this Agreement. Buyer will have 10 days from acceptance to verify the existing zoning and current proposed changes, and deliver written notice of objections to Seller or be deemed to have waived objections under this paragraph.

17. The offer of BUYER shall terminate if SELLER has not indicated his acceptance of this Agreement by signing and delivering same or telegraphing acceptance to BUYER or submitting agent before ________:01[ ]AM.[ ]PM., Date ________.

18. Additional Terms, Conditions or Addenda (lettered A.B.C.D.etc.)

____

____

19. Timing: The timing of paragraphs 7,8,9, and 10(A) will become operable after satisfaction of paragraph 2, if applicable, and those additional conditions lettered in Paragraph 18.

20. There are no other agreements, promises or understandings between these parties except as specifically set forth herein. This legal and binding agreement will be construed under______ Law, will not be recorded and if not understood, parties should seek competent legal advice. Seller and Buyer give real estate agent authorization to advise surrounding neighbors who will be the owner of this property. TIME IS OF THE ESSENCE IN THIS AGREEMENT.

21. Signed sealed on the date herein stated

Your Buyer

Buyer	Date of Offer	Buyer
You Seller	Date of Acceptance	Seller

[ ] Agent [X] Seller, by the signature below, acknowledge receipt of $ 500.00 [ ]Cash [X] Check, as binder deposit, which is the amount mentioned in paragraph 1 A of this Agreement. It will be deposited and held in escrow pending disbursement according to terms hereof, together with all additional binder deposits escrowed by terms of this agreement.

	You
Agent	Seller

Step 9: Check The Title

Here you are with your first deal under contract to buy. Only a few days or weeks from cashing in. That's great, but before we start the process of selling a junker to a bargain hunter, there is a very important step we must complete.

Either a title company or an attorney must do a little title search to verify there are no liens on the property other than disclosed by the seller. They will also verify the current owner is the only owner and there are no other parties of interest. Until this process is complete, you're not ready to sell. Most states allow title companies to close real estate transactions. Some require attorneys to close. A call to a local title company will acquaint you with the answer.

Ugly Houses To Wholesale

If the property you're buying is an ugly house that was listed with an agent, he/she will want to handle this for you. Simply ask who he/she intends to call for the title work. Tell him/her you'd like to handle the title yourself. If no agent is involved, see **'How Do I Find An Attorney And A Title Company?'** in this manual.

Either call or visit this title company or attorney or pick another of your choice. Hold a short conversation with them about a simultaneous closing and assignment. You must make sure your closing agent won't be a problem when it comes time to close. This is important to ensure the continuity of your deal. Agree on a price for this service before you order a search. The cost should not exceed $100. If it does, shop around. Also, make sure the cost of a search will be deducted from the actual title insurance cost when you close. This is important because you can get a rebate at closing if the seller agreed to pay title insurance or you'll get your policy cost reduced by the cost of the search fee.

Remember, with a wholesale deal you'll be buying and reselling quickly. This will require a title policy for your buyer. Therefore, you won't need a title policy, only a search. Do not let your Realtor get wind you are doing a simultaneous closing. Make certain your title agent doesn't divulge this information either. When you're satisfied the closing agent will perform without being an obstacle, you may order a title check and deliver a copy of your Purchase Agreement if you're doing a closing. If you don't feel comfortable with your

conversation with the closing agent, find another. This whole process should take place within three days after you get a signed Sales Agreement in your possession.

A title search should not take more than three days to complete. Be sure you clarify this up front. If you're told it will take longer, get the title agent to agree to three days or less, or move on to another. Get a file number for easy reference when you call back to check on the results. All files are referenced with a number, which is assigned at the time of your order. Call back in two or three days to see if the search has been completed. If so, ask if any problems exist. If the answer is no, move on to the next step.

If yes, ask what it will take to clear the title. Report these results to the Realtor, if applicable. Do not go to the next step until you have the clear title. If there is a title problem and no real estate agent is involved, your findings should immediately be relayed to the seller.

At this point, you can void your agreement or get legal help to clear up the problems. The cost should be covered by the seller unless you're willing to cover them yourself. If the seller is not willing to do what's necessary to clear title problems, you can elect to do so or pass. Sometimes title problems can be cleared by a simple document being signed by an affiliated party. Other times, major title problems may occur, which will prevent you from selling the house. That's why this step must take place before your proceed in finding a buyer.

Step 10: Getting Ready To Sell

Once you know the title is clear, the next move is to prepare the house for sale. This won't be difficult because in most cases you're selling it in "as is" condition if it's an ugly house. So the only concern is when it can be occupied. When wholesaling a house you won't even need to put up a for sale sign. If fact, you shouldn't in most cases since you don't own the house. A sign is not necessary and may attract attention from the seller or agent if placed without permission. If you're using an agent and buying an institutionally owned house, you'll find it difficult to get possession of the property during escrow or permission to clean it up and get a key. It becomes a liability issue. An agent's sign on the house is not a problem once you have a contract.

If the seller is not an institution, it's much easier. You can do pretty much what you can get permission to do. If the yard needs cleaning or the house is trashed and you don't mind getting it done, simply ask. You should be able to get a key as well. However, you are not to spend much money or make any alterations to a house you don't own. Remember, you're selling "as is" for a wholesale price. Your buyer is getting a good deal because of the condition of the house. The most you will do is clean up the premises and secure the doors and windows and usually you won't do that.

Step 11: Attract Buyers

It's now time to run an ad in the daily paper under "Investment Properties" or a similar column. A three day ad should be sufficient. Before you spend the money on the newspaper, run the ad on Craigslist and every online source you can locate to place the ad. Put "Your City Classified Ad Sources" in Google and make a list of sources. Make sure you're set up with a place for them to go to respond. It could be simply an email to you, which should trigger an auto-responder to them with:

- Location
- Asking price
- Directions
- Bed/Bath and Square Feet
- Your estimated ARV and repairs
- Your contact info, once they see the house
- Instructions to call you after they see the house with your number

Now you've captured their email addresses, which you should now save to build your buyers list, which is your most important asset in this business. See sample email enclosed.

You'll find an info sheet in the resource section about our I-Flip software that automatically locates both buyers and sellers for you. Check it out. The ad should read:

Handyman Special, Cheap, Cash
(Your Phone Number And Email Address)

Don't add anything to the ad. Make sure you or someone working with you is available to take calls or return them.

Don't volunteer any information. Answer only what you're asked and send the prospects to the house you have advertised. Tell them to get in if they can and to just look if they can't. If you have used my formula for making your offer and are reasonably close on your ARV and repairs, your asking price should be below MAO, which should be at least $10,000 more than you agreed to pay.

You are not to visit the house with your callers. They will call back if they're interested or respond by email. Continue this process until you get a buyer who wants to give you a $500 deposit. Make certain they can look into all the windows. You are not to show the house. Let the house show itself.

Sample Email Auto Responder (This Will Go To Your Prospect Immediately Upon Their Response To Your Ad)

Thanks for your inquiry. My house is located at 123 Main St. which is in the Northside. It's a 3/2 with 1,283 square feet and concrete block construction. My comps show it's after repaired value to be about $125,000 and our best guess is $10,000 in repairs. The price is $60,000 cash, no terms please. You can see through most of the windows and gain entry once under contract (or you'll find a key over the back door ledge).

Directions – go north on Park St. to Magnolia, left 3 blocks to Main, right 2 blocks to house on your right. There's a Remax sign in yard. Ignore it and call me, Ron Grant at 904-555-5555 if you want the house or email me and I'll submit an agreement.

I get houses like this occasionally and if you would like me to notify you when I do, please answer a couple questions below so I can do so.

What areas would you like to buy houses? ________________________________
____

When I send you a good deal, can you close within _____ 15 days _____30 days _____ longer?

What's the maximum cash you can raise for a deal? ________________________

What after repaired price range would you prefer? ____________ to ___________

Thanks! Contact me as soon as you've seen the house. It won't last long at this price.

Submit Now
(Your Link Here)

Step 12: Prescreening Buyers

You've run a handyman special ad and you're getting calls and emails from prospective buyers. You've sent several to the property and now one calls you back who shows serious interest and says he/she wants the house. Ask your buyer when he/she would like to close. If the answer is ASAP, you have a real prospect. Any other answer is not acceptable unless you're convinced your buyer is real and can perform. If the buyer needs to see the inside and couldn't gain entry on his/her own, you'll have to make arrangements to get in. If no agent is involved, this can easily be done by getting a key from the owner if you haven't already done so. We do not show houses.

If an agent is involved, ask him/her if you can get a key to show the house to the prospective contractors. Most will cooperate, some will not. If this presents a problem, you may be forced to have an agent meet you at the property with the buyer or instruct the buyer you don't have a key and can't get in at this time.

You'll be surprised to learn when you leave enough profit on the table for your buyer, they will usually find a way in or agree to buy without entry. Your common sense applied to the circumstances surrounding the deal will guide you to the right choice here. Use your own judgment.

Step 13: Getting A Commitment

Until you have a deposit from your buyer, you have nothing but hot air. Never stop selling the house or building your buyers list and never assume it's sold until your have a check from a closing agent for the full amount.

Even when you get a deposit, you don't know it's sold until you get the money.

There are two key ingredients to ensure that happens. The first is getting a deposit and the second is limiting the closing time so the deal isn't in jeopardy unless you raise the money and buy it.

Deposit – I will not accept less than $500. Anything less quickly tells me it's a time waster trying to tie up my house to flip and chance of closing is 50/50 at best. $500 isn't a lot but it tells me at least there's serious intent from my buyer.

If your asking price is over $50,000, this should be bumped to $1,000 and in some areas more, depending on what's customary and acceptable to your buyers.

However, if you go to the extreme here, you'll lose a lot of good buyers. A $5,000 deposit on a $50,000 sale will meet strong resistance and you'll sit on the house a long time.

The deposit should be made out to you or your entity but don't let it lose a sale if the buyer insists it to be your title company or attorney. Notice I said YOUR title company.

Never let a buyer use their company to escrow your deposit. It's made out to you or your closing agent or tell your buyer to take a hike. NO EXCEPTIONS!

The deposit from your buyer should be the same or more than the deposit you gave the seller if you don't own the house. This may be difficult in the case of some bank owned houses you buy at auction or through the MLS because in today's market, some are asking up to 10% for the deposit. You'll find it very hard to get your buyer to give you a 10% deposit because you don't have the credibility of an auction house or real estate firm with a government regulated escrow

account. If you go for 10%, you'll likely need to use your title company's escrow account to offset some scrutiny.

Caution

Make sure your title company or attorney produces an escrow agreement that automatically gives you the deposit if buyer doesn't close. This will eliminate his/her signature to get the money. They sign the escrow agreement along with the assignment of contract or sales agreement. This is applicable only if the deposit is not made out to you.

Time For Closing – will determine if your buyer has access to the funds or is simply trying to flip your house. The longer the time requested to close, the less likely they have the money available.

I give my buyers 15 days and often extend to 30, but never longer. You could give them 15 days and build into the agreement a 15 day extension for an additional non-refundable deposit of $1,000 or more.

Do not fall for the stories you'll hear from your prospects on why they need more time. The ones who jerk you around the longest are the ones you'll never close. Your philosophy should be simple, the more time you want, the more money I want up front.

Of course, if you're under a 30 day window to close the purchase, you can't play games with your buyers unless you've lined up the money to close to protect the deal. You'll find it a lot easier to make cash offers and sleep better knowing you can close if you have to. Until you get to that point, a few flippers can pay the bills, but it does mean tighter control over your buyer.

Note

In today's market, many of your buyers will be owner occupants. In this case you can go for a larger deposit and extend more time to close as long as your buyer is not trying to fund your deal with a bank loan. Banks do not loan on ugly houses and your buyer may not know this yet. Don't let them learn at your expense.

ASSIGNMENT

This assignment is made and entered into this ____ day of ___________, 20____ by and between ________________________, with its principal place of business at ______________________________ ("Assignor"), and ________________________, (with its principal place of business at/residing at) ______________________________ ("Assignee").

WHEREAS, Assignor is a party to the purchase and sale contract for real property located at _________________(address), ______________(city), ________(state), _______(zip code) (the "Property"), more specifically described in the contract which is attached hereto, and incorporated by reference, between _________________________ ("Buyer") and ______________________ ("Seller") (the "Contract"); and

WHEREAS, Assignor desires to transfer his rights in the Contract to Assignee and Assignee desires to receive such rights under the Contract, and in consideration thereof, Assignee agrees to pay an earnest money deposit in the amount of $___________ upon execution of this Assignment and the balance of $___________ at closing. This deposit shall be non-refundable unless clear title to the Property cannot be delivered to Assignee, in which case the deposit shall be returned within three days after notification of same from the Assignee.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor hereby covenants as follows:

1. Assignee hereby accepts said assignment and assumes, covenants, and agrees to carry out and perform all of Assignor's obligations pursuant to the Contract.
2. This Assignment shall bind and inure to the benefit of the parties hereto and their respective successors and assigns.
3. This Assignment shall be governed by and construed in accordance with the laws of the United States and to the extent applicable the laws of the State of ____________ exclusive of the choice of law provisions adopted thereby.
4. This Assignment shall expire ________ days from the date of the Assignment if the Property is not purchased by that time. The parties agree that this Assignment may be extended upon Assignee's written request for an additional ________ days with an additional, non-refundable deposit in the amount of $____________ which will be applied to the purchase price.

IN WITNESS WHEREOF, Assignor and Assignee have executed this Assignment as of the date first written above.

ASSIGNOR:

____
By:
Its:

ASSIGNEE:

____
By:
Its:

Assignment Vs. Simultaneous Close

With an assignment of contract there is only one closing. Your seller is selling it to your buyer and your fee will show on the closing statement. You have no closing costs except maybe your attorney fee.

This is the simplest way to wholesale a house but is not always applicable. There will be times when you can't or choose not to close with an assignment and use a simultaneous close.

A simultaneous close is two closings, usually on the same day. You buy and quickly resell. This means you must either put up the funds to close or set it up for your buyer's funds to be used to fund your purchase. This may not be possible in some states and will be determined by your attorney or title company. If they can't, you will have to raise the cash to do a simultaneous closing or use assignments only.

Unfortunately, many banks and all government sellers will not allow assignments as of this writing. This includes FNMA, Freddie Mac, HUD and VA.

Your choices here are to raise the money to close with your own funds, private money or a One Day Dough program, if your buyer can close simultaneously.

With your own funds of course it gets easy. Simply close and get an immediate refund of your money and a profit.

With private money it's more trouble, paperwork for your attorney to do and expense, but it buys you time and the luxury of maybe selling for more or many other exit strategies beyond wholesaling. If you're in and out the same day and using private money, simply tell your lender the facts and pay them $500 – $1,000 for the short use of the money. You may not even need your attorney to create a note and mortgage or deed of trust.

The only reason you're even using private money in this case is to satisfy the closing agents state mandated requirement to have the funds in the escrow account prior to closing. Your attorney will tell you exactly how and what needs to happen on your first deal and any title company can do the same.

There are companies who will send the money to closing for you as long as you have a buyer waiting. It's not a loan. The money never gets disbursed except back to the sender. It's only sent to satisfy the closing agent's requirements. Your credit is irrelevant. No one cares.

These funds will cost you between 1% - 3% of the funding needed. A resource is in this manual.

Remember, have a chat with your closing agent to determine if any of this is an issue. A simultaneous closing is only applicable in the above cases or when you're simply making such a large mark up you don't want your buyers to know. If he/she doesn't see your contract to purchase from your seller, the only way they will know what you're paying is if you or the closing agent tells them. All they see is a contract from you to them, no assignment.

Step 14: Closing The Sale

<u>Listed Houses</u> – the agent will want to control the closing and push you to do so as soon as the seller is ready. You are under no obligation to close until your contract says you have to and should not yield to agent pressure, unless you're ready. Simply tell him/her you intend to close on or about the last day and will notify them if it changes.

You should also disclose you will set up the closing and have your title company or attorney notify them with the details. If you're closing with a title company appointed by the seller, usually a bank or government agency, you have a choice.

You can let them close and work with them to coordinate the sale to your buyer or the closing of your private money loan, if applicable. If you're writing a check to close, this will be simpler with less potential problems.

I'd suggest you do not close with the seller's appointed company unless your attorney is representing you. A lot of things can happen that are too complicated and lengthy to insert in this course. Let your attorney protect your interest. It's worth the few hundred dollars it cost and will be a critical component to make your wholesale business run smoothly.

"Let Others Do What They Do
Best So You Can Focus
On Doing What You Do Best!"
~ Ron LeGrand

A title company or escrow company is not your attorney. They can close real estate transactions, but they do not represent you, cannot practice law and in most states can't even close unless a title policy is purchased.

Buying and selling houses without an attorney is like entering a sword fight with a switch blade. You're going to get bloody.

In a nutshell, your only responsibility should be to find the buyer, get an assignment or sales agreement signed with a deposit and turn it over to

your attorney along with your agreement to buy and funds, if you're providing. He/she will do the rest.

They will:

- Coordinate with the Realtor.
- Coordinate with your buyer.
- Prepare the closing package(s) and send to both for signatures and get returned.
- Collect the funds from you or your buyer.
- Disburse to all concerned.
- Send closing packages.

**There Is No Closing For
You To Attend**

Get out of the way and let the professionals do their thing while you oversee to make sure it's getting done.

When Do I Use An Attorney And When Do I Use A Title Or Escrow Company?

Every deal you do will require a title search, which is what title companies do. You should order the search yourself and get your attorney the results. In some states you don't have that option and if that's so you'll know immediately by asking other investors or your attorney.

Many investors use title companies exclusively and rarely use an attorney in an effort to save a few bucks. I'd suggest you adopt the opposite policy and use mostly attorneys and an occasional title company only closing. You will need a title company.

Here's a list of cases where an attorney is very important to get involved:

- Any purchase of a bank owned property.
- Any purchase from the elderly, military or any seller in foreclosure.
- Any purchase involving seller financing of any kind or taking debt "subject to."
- Any sale involving new financing, seller financing, lease option, option or to the elderly or military personnel.

Since that doesn't leave much to close without an attorney, why not just let him/her close all your deals.

- They'll get proper disclosures signed and do all the paperwork except the assignment or purchase and sale agreement.
- They'll keep you from breaking the law.
- They'll act as a buffer between you and your buyer or seller.
- They make good witnesses if you ever go to court and if they close will likely prevent that from happening.
- If you're paying for a title insurance policy from a title company, it may actually be cheaper for your attorney to close because they get half off on the policy. This is assuming you make him/her know you know, so you can get a break.
- If you're selling with owner financing or lease option and sometimes for cash, you can pass the cost of your attorney on to your buyer so it's free to you.

Only Fools And Attorneys Do Their Own Legal Work

How Do I Find An Attorney And A Title Company?

1. Ask any active Realtor who they use to close real estate deals.

2. Ask all the investors you know. The active ones have probably done the research for you and found the investor friendly attorneys and title companies.

3. If you have a local real estate investment group, attend a meeting and ask around and you'll likely get several using the same companies. Also see if they have a local resource list you can get.

Deal only with user friendly attorneys and title companies who want your business and work to make the deal happen, not kill it. If they become a roadblock, whack 'em.

Be careful! Is the problem really them or are they giving you good advice and you refuse to listen? If you find other investors successfully using them and not complaining, I think you've found the answer.

Closing Non-Listed Houses – this is much easier because you've eliminated Realtor interference and maintain total control over the closing agent and process.

The steps are simple:

- Get buyer under contract after your title search comes back clean.
- Send sales contract to your attorney with buyer and sellers contact info and tell him/her to get it closed ASAP.
- Monitor the process until you get paid.

Step 15: Complete The Process

The check and file is in your hand. Put the file in a file cabinet as is and deposit the check in your flipper entity or your own account.

Add a photo of the house to your file and copy of the check, if possible.

Send the legal secretary flowers with a thank you note. Send the buyer a gift of food like Omaha Steaks.

Take your family to dinner in a nice restaurant and tell them why you're there and every time you get a check you'll be returning. They get to pick the next restaurant.

Send Ron a testimonial letter with a copy of the check, your photo and photo of the house. One page please.

Send your Mentor the same, if applicable.

DO IT AGAIN SOON

Marketing Houses Wholesale Recap

1. Find a good deal and tie it up.

2. Check title.

3. Run online ad "Handyman Special, Cheap, Cash, *Your Email*".

4. Build buyers list while selling houses.

5. Get contract and binder from buyer.

6. Give both contracts to <u>your</u> closing agent then get the time and date for closing. Discuss the whole process with the closer to make sure they know what's going on.

Contingency Plan If You Don't Find A Buyer

One of the most frightening things for a new entrepreneur is the nagging question of what happens if I can't sell the house. In fact, my experience tells me after years of training, this is such a big concern it keeps many people from even trying. I sure hope this doesn't apply to you. Let's discuss our alternatives if our mystery buyer doesn't appear. There are only a few things that could occur for this problem to become a reality. So using a problem/solution format, we'll discuss them.

Problem: Your asking price is too high. ***Solution:*** Lower it! Either you've paid too much or you're just too greedy. If you've paid too much you must renegotiate a low price or forfeit your deposit and learn from your mistakes. If you find this is the case, fix it early. Don't wait until the end of your escrow period only to make the seller or the agent angry. Fix it quickly, admit your mistakes and move on. If you make offers using my formula your chances are good of never having to concern yourself with this problem.

Problem: The property is in a war zone and no one will buy at the price you're asking because they know people who can qualify for a loan won't live there. ***Solution:*** Find out what your buyers will pay and if they're interested at any price. Then renegotiate a lower price with your seller or simply forfeit your deposit and move on.

Problem: The property is such a serious rehab it scares away even seasoned investors. ***Solution:*** If the house is in that bad of shape perhaps you shouldn't get involved in the first place. Any property needing more that 25% of the ARV for repairs is off limits. Even these houses will sell if you offer them at a low enough price. So it all comes back to paying too much.

Problem: No one calls from the ad you placed. ***Solution:*** this problem will occur only in your head. If you use my Handyman Special ad greed will compel people to call. If not, check your ad. Is it buried where no one can see it? Is the phone number correct? Is it in the Investment

Property section and/or on enough websites? Are they calling and no one is answering the phone a good part of the time? Are their emails getting through or spam blocked? Have you run the ad I gave you or a creative version you dreamed up? I've never known my ad to fail, why fix it?

<u>Problem:</u> You're offering a multi-family unit and can't get any interest. ***<u>Solution:</u>*** Stick with single family homes for now. The market is large for houses and small for rentals. Stay where the market works best. If you make an offer on multi family properties be prepared to buy it yourself.

Be careful not to sign with a specific performance clause giving the seller the right to sue you in case of default. The agreement in your course calls for the deposit being the only remedy for default. If using a Realtor agreement, which contains this clause, either mark it out or don't make offers through Realtors or just take your chances the seller won't sue for specific performance, which isn't likely. In that regard, the most you can lose is a few dollars to a seller you're working with directly or a few hundred through a Realtor. <u>If you make any of the mistakes above, the solution is not buying the house yourself. Your mistake will only be compounded if you do.</u>

Common Questions From Wholesalers

1. **Q. How do I get inside vacant houses to inspect?**

   A. In some cases, you don't. You should be able to estimate repairs by looking through windows well enough to submit an offer. In other cases you'll find doors unlocked and windows open. Soon you'll be able to estimate repairs from a brief description of the interior and a photo.

   If you're licensed, you should have a key to the listed houses. Dragging around Realtors to show you vacant, listed houses will end in a very short relationship.

   If you can't see the inside, simply make the offer assuming it needs everything.

2. **Q. What if I'm wrong on repairs?**

   A. If you're so far off on your estimate that it kills the deal…you offered too much. You will be wrong. It doesn't matter if you use my formula. It already contains a margin or error.

3. **Q. How do I know the agents won't steal my deal?**

   A. You don't! Every once in a while it will happen, but as a rule the agents don't want your deal. They are licensed and live by a code of ethics. If you lose one now and then…quit crying over spilled milk and go milk another cow.

4. **Q. Will I need a deposit for every offer I make?**

   A. NO! You should tell the agent you'll either do one of two things, put one deposit in their escrow account to be applied to the first accepted deal, or put on the contract the deposit is due upon receipt of accepted agreement. In the case of a FSBO, your normal deposit is $10 so it doesn't matter. You only hope you need a lot of $10 bills.

5. **Q. Should I assign my contract to my buyer or do simultaneous closing?**

   A. You should assign your contract if you don't care if the buyer knows what you're making and if your contract to purchase is

assignable. This saves closing costs. If an assignment is not possible or probable, do a simultaneous closing but pass all the costs you can to your buyer. Some institutional sellers will not allow a contract assignment.

6. **Q. What happens if I can't close?**
   A. You lose your deposit. Most contracts clearly state your deposit is the only remedy for default. If it doesn't, you'll have to take your chances, strike it out or don't make the offer. No one can force you to buy a house.

7. **Q. What if my buyer backs out at the last minute?**
   A. Postpone the closing and find another. You should get a non-refundable deposit and close well before your deadline to prevent this from being a concern. Before signing a sales contract, ask your buyer when he wants to close. If the answer is longer than ASAP, get a larger deposit and/or shorter escrow time.

8. **Q. When I get a contract through a Realtor, should I remove their sign?**
   A. NO! It's not yours to remove and it won't hurt you. The house should be listed for more than you're asking, so if your buyer calls the agent, they'll know it's a good deal.

The Most Common Mistakes

1. Buying in the wrong area

2. Paying too much

3. Working with the wrong agents

4. Worrying too much about repair costs

5. Letting lack of money stop you from making offers

6. Not prescreening prospects

7. Not making enough offers

8. No follow-up system

9. Not building a buyers list

10. Not learning the rest of the business: Options, Getting The Deed, Owner Financing, Work For Equity, Retailing, Short Sales

11. Taking advice from unqualified advisors

12. Listening to the dream stealers who insist you have no right to succeed and want you to fail to keep them company.

How To Build An Auto Pilot Business

There are really only 5 basic things to master in the wholesaling business. Once you have conquered them, you can train others with very little effort to do most or all of the work.

1. Finding and prescreening prospects

2. Determining the market value

3. Estimating repairs

4. Making offers and counter offers

5. Selling

Your focus should remain on generating revenue. Don't get bogged down in details. Your time is best spent on making offers. All the rest can be delegated.

Pick Out What Only You Can Do
And Hire Someone Else
To Do The Rest

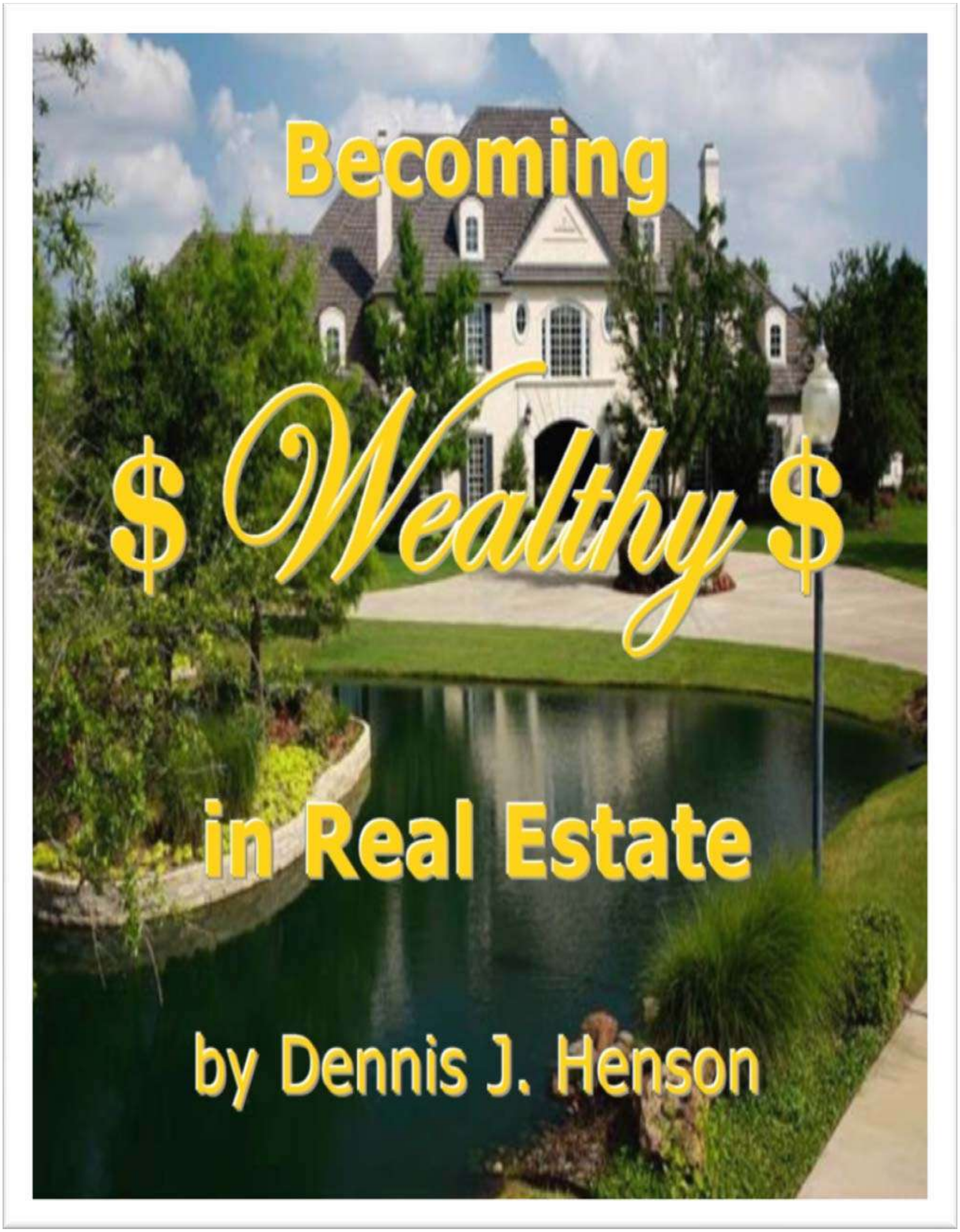
To Whom Are You Listening?

Listening To The Wrong People Will Put You Exactly Where They Want You To Be…Broke

Never Take Financial Advice From Anyone Who Isn't Making Several Times Your Income!

Free Advice Is Almost Always Worth What It Cost. Good Advice Is Almost Never Free.

Don't Listen To The Morons


Becoming
$ Wealthy $
in Real Estate
by Dennis J. Henson

Dennis Henson is a real estate investor, author and mentor in Arlington, Texas. He is the president of Vanguard Marketing and Investments, Inc. and the “AREA” (Arlington Real Estate Association of Investors). Dennis is an eloquent speaker and has written many articles on Real Estate Investing. He is also the inventor of “Turbo Bidder” a Real Estate Investing Software.

In 1971 Dennis purchased his first investment property in Adarisville, Georgia and he has owned property in many of the Southern United States. He holds a B.S. Degree from Jacksonville State University and a Master’s Degree from Mississippi State University both in Education.

Dennis has taken numerous courses by Real Estate Gurus including John Schaub, Robert Allen, Carlton Sheets, Wade Cook, Russ Whitney, Dolf de Roos, Mike Summy, Roger Dawson, Bill Barnett and many others.

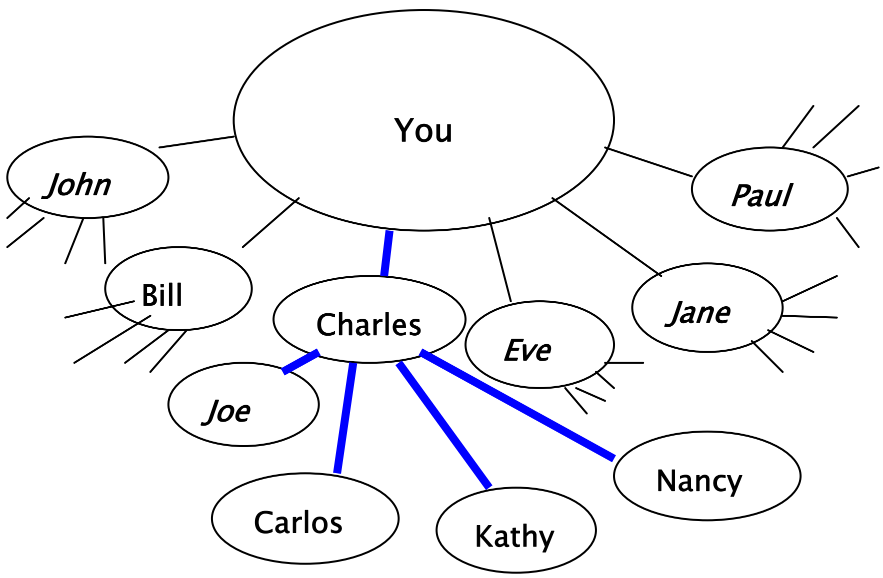
Investing in real estate, helping people find and purchase a new home, working with new investors and teaching investment seminars are Dennis’ passion. His years of experience, constant study and love for teaching have made him a successful investor and excellent mentor.

Building *Wealth* in Real Estate

By Dennis J. Henson

Building Wealth Investing in Real Estate

Have you ever been to a traditional Multi Level Marketing meeting (MLM)? If you haven't this is how it works. They get you to talking about all the things you would really love to have like a yacht, a luxury car or a big house and they get you excited about the things you could do or own.



In their plan—they put you in a circle, then they put your friends in circles around you and their friends in circles around them and before long the whole world is in your MLM Program. In the real world it doesn't work that well but it is a nice plan and some people do make it work.

I’m sure they didn’t fill all those circles but they got a lot of them to work. Now the concept I’m going to present is not going to work just like I’m telling you but you can make it work and it does work very well.

$20,000 INVESTED

Years	Bank 5%	Stocks/Bonds 10%	Mutual Funds 20%
1	$21,000.00	$22,000.00	$ 24,000.00
2	$ 22,050.00	$ 24,200.00	$ 28,800.00
3	$ 23,152.50	$ 26,620.00	$ 34,560.00
4	$ 24,310.13	$ 29,282.00	$ 41,472.00
5	$ 25,525.63	$ 32,210.20	$ 49,766.40
6	$ 26,801.91	$ 35,431.22	$ 59,719.68
7	$ 28,142.01	$ 38,974.34	$ 71,663.62
8	$ 29,549.11	$ 42,871.78	$ 85,996.34
9	$ 31,026.56	$ 47,158.95	$103,195.61
10	**$ 32,577.89**	**$ 51,874.85**	**$123,834.73**

If you have $20,000 that you want to invest there are many different ways for you to invest it. You can get a CD at a bank, Mutual Funds, play the lottery, go to Las Vegas but the most common ways would be to invest in a Bank CD, Stocks and Bonds or Mutual Funds. If you invested your $20,000 in a bank for 10 years and got 5% interest which is probably a little more than you could get for a CD right now it would grow to $32,577.

If you are a really good stock investor and you buy some great stocks and they do well you might average 10%. You would have to be good at trading stocks to average 10% because the big guys have a hard time doing that. But let's say you did well with your Stocks and Bonds and at the end of ten years your total would be $51,874.

Now there are Mutual Funds that do really well, I had one last year that earned 20%, sometimes they earn 25, 30 or 35% but if they average 20% that is really good. So in ten years your Mutual Fund would have $123,834 which is a pretty good investment.

"Real estate is kind of like having a royal flush."

Department store tycoon Marshall Field once said "***Real estate is not only the best and quickest way to make you wealthy for the average person it is truly the only way"***. I wonder why Marshall Field would say that? Everyone would like to be wealthy, they would like to have their money make them a lot of money so why does real estate work so well? It's kind of like a royal flush. If you have a

royal flush you're going to win! You can't be beat. With any other investment you don't have the royal flush. You don't have all five of these things. You may have two of them, you may even have four, but only with real estate do you have: (leverage, inflation, revenue production, tax advantages and the power of compound interest). I'm going to discuss each one of these.

Real Estate Investing

- **Department store tycoon Marshall Field once said:**
    - **"Real Estate is not only the best and quickest way to make you wealthy, for the average person it is truly the only way".**

Inflation

Median Housing Costs by Decade

1940s	$ 2,000
1950s	7,000
1960s	12,000
1970s	23,000
1980s	62,000
1990s	94,000
2000	100,000
2007	$150,000 & Climbing

INFLATION: Just take the 1950's. If you purchased a median home in the 1950's you would have paid about $7,000. That same home in the 1980's would cost $62,000 and if you purchased it in 2000 about $100,000 and now median homes are $150,000 and climbing. There is so much negative information about the housing market but housing on the average goes up. There isn't any more land but there are more people, consequently the demand is increasing. The housing market dropped in Texas in the 80's but it turned around and went right back up so if you can hang on to your real estate—people always have to have a place to live. If they don't own a home what do they do—**rent**! And if they can't afford to buy it what happens to the rent? It goes up because more people are renting—it's like a teeter totter, you're either

going to sell the house or rent the house and either way is going to be good for you.

Leverage

The Greek Inventor and Mathematician Archimedes once said….

- **"Give me a lever long enough and a fulcrum on which to place it and I shall move the world".**
- **A $10,000 investment might allow you to control a $150,000 property.**

LEVERAGE: The Greek inventor and Mathematician Archimedes once said ***"give me a lever long enough and a fulcrum on which to place it and I shall move the world".*** Leverage is controlling a $150,000 home with a $10,000 investment.

You can't do that with stock. How much stock can you control with a $10,000

investment? If you invest $10,000 you can buy $20,000 in stock and that isn't nearly the leverage as controlling $150,000 so you have more leverage with real estate.

Compound Interest

- **Albert Einstein called Compound Interest *"The 8th Wonder of the World".***
- **Why is Compound Interest so Powerful?**

COMPOUND INTEREST, REVENUE PRODUCTION AND TAX ADVANTAGES: Albert Einstein called compound interest *"the eighth wonder of the world".* Why is compound interest so powerful? Did anyone ever ask you if you would like to have $1,000 a day for a month or a penny a day and double it? Well, at the end of the month if you take $1,000 a day you will have $31,000. If you take a penny a day and double it you are going to have $5,368,708. Just imagine if you took that to a year—and remember this example because I'm going to come back to it.

$20,000 Real Estate Investment

• ARV (after repaired value)	$ 100,000
• Price	65,000
• Down Payment	10,000
• Fix Up Cost	10,000
• Total Cost	75,000
• Investment	20,000
– $10,000 Down and $10,000 Fix-up	
• Net Increase	$ 25,000

Let's take your $20,000 and invest it in a house and see what happens for 10 years. Say we find a house and the ARV (after repaired value) is $100,000. If I am going to buy it and it needs a lot of fix up I am probably going to pay $65,000 for it. If you're new to investing you're going to wonder why I would only pay $65,000. You probably think you can't buy a $100,000 house for $65,000 but if you are more experienced "**you better**" will be your thinking because if you pay much more—you are going to lose your shirt.

If you buy a $100,000 house for $65,000 you might put $10,000 down (although it doesn't really take that much) and your fix up cost might be $10,000 so your total cost for the home is $75,000. Let's just say that all the

money you have in the world is $20,000, you put $10,000 down and spend $10,000 fixing the house up—you have now realized an increase of $25,000 on paper just like in the stock market—when the stock goes up on paper you've got this much money and it may go down tomorrow but with a house it usually stays there.

First Year Gain

- **Net Increase** **$ 25,000**
- **Appreciation** **3,500**
- **Rent** **1,000**
- **Tax Breaks** **4,500**
  - **Depreciation, Fix Up, Interest**
- **Principal Pay Down** **500**
- **Total Gain** **$ 34,500**
  - **172.5% Return**

Take that $25,000 for one year. During the first year several things are going to happen—one is the house is going to appreciate. I'm using 3.5%, it can appreciate 7-8% depending on where you are but the average is about 4.5%. Just to be conservative we're using 3.5% so the house is going to be worth another $3,500 and you're going to rent it out. If it takes two months to fix it up you're going to rent it out for ten months.

During those ten months you make $100 a month so at the end of the ten months you have another $1,000. Now Uncle Sam is going to step up and be glad you bought that house and that you're renting it out.   Even though it's going up in value you can depreciate the house (not the land) at about 4.4%. Your fix up cost of $10,000, interest on mortgage and insurance are also deductable. You're going to have another profit from tax breaks of $4,500 if you add all that together.

Since your renters are paying your payment for you they're paying down your principal of the loan that you took out so that is about another $500. Most of that money goes to interest but you have a tax break on it so you get another $500 of principal paid down. Your total gain at the end of the first year is a return of 172.5%. That is much better than the 5, 10 or 20%.

Second Year Gain

- **Appreciation** **$ 3,600**
- **Rent** **1,260**
- **Tax Breaks** **2,340**
  - **Depreciation, (Fix Up), Interest**
- **Principal Pay Down** **550**
- **Total** **$ 7,750**
  - **38.75% for 8 years = $274,722**

Now take a look at the second year. The second year you won't get the $25,000 again because that was for purchasing the house—but the second year the house is going to appreciate more because it's worth more than the year before so it's going to be worth maybe $3,600 more. If you're smart you raise the rent every year about 5% so now instead of $1,200 it's $1,260—and you don't get tax breaks on the big fix up but you still get your depreciation if you had any minor fix up and your interest and insurance so you are going to get another $2,340 and the principal pay down goes up.

Every year you pay less interest and more principal so you're going to get $5,500. Your total at the end of the second year is $7,750 or a 38.75% return. It is not as good as the first year but 38.75% is pretty good. Rather than me trying to figure out what the interest will be for the next eight years I just left it at 38.75%. It will go up but I just left it there so an eight year total would be $274,700 and we're going to add that to your ten years.

10 Year Total

- **1st Year = $ 34,500**
- **2nd Year = 7,750**
- **Other Years = 274,700**

- **Total = $316,950**
    - **63.2% Return**

Your first year return is $34,500, the second year return is $7,750 and then for the next eight years $274,700 so your total return at the end of ten years is $316,950 or 63.2% return. That is better than Mutual Funds. This kind of thing gets me excited!! You invest $20,000 and you come back with $316,000 but that's not all. You're not through—this is just the beginning because at the end of the first year the property will probably be worth $103,500.

What if After One Year

- **Value after 1st year $103,500**
- **Borrow 80% or $82,800**
- **Original Loan was $55-60,000**
- **Now what is your investment?**
- **What % is the return now?**

Mortgage Companies get real friendly with you at the end of the first year. They will actually let you borrow 80% of the appraised value—not the money you put in but the appraised value so if you borrow 80% of the $103,500 that is $82,800.

You've put in $20,000 and your original loan was $55,000 to $60,000 depending on your closing cost and now what is your investment? You've got roughly $20,000 back so you put in $20,000 and you took out $20,000 what is your investment? Zero, but you've still got all those gains. You've still got money in the bank so what is your return on your investment? It is infinite. You put money in and you got money out and your money is still growing and you can't figure the exact return because you have less than zero invested so this is a good deal.

You're still not through—this is just the beginning—this is where it really gets exciting because you don't get to keep that $20,000, you haven't compounded it yet. You're going to take that $20,000 and work another deal so you're making $74,000 again the next year on the second house while the first one is still growing.

Add Compounding

- **What if you reinvested the $20,000?**
- **What if you continued to reinvest?**

What would you have in 10 years?

What if you continue to reinvest the money so on the third year you are going to buy another house and you will really have enough to buy two more and on the fourth year you take the money back from those houses and you can buy three or four more. It doesn't work out so it's doubling every year but it's close. Then the next year you can buy four more and then the next year six more and the next year you can buy eight more. By the end of ten years if you add it all up, punch all the numbers in and come up with a grand total of what you would have from your $20,000 what would you have? I couldn't come up with an exact number but it is over $10,000,000.

Summary

- **In Review**
  - **It only takes one home per year to create wealth.**
  - **"Over the years"**
    - **Rents will go up**
    - **Principal pay down will increase**
    - **Property value should appreciate**
    - **Tax advantages will add up**
    - **Mortgages will eventually payoff**

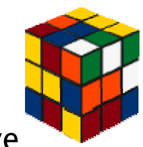
It only takes one house per year to create wealth. If you go out and buy a $100,000 house and pay $90,000 for it you're not going to create wealth. It may take you a year to find one at $65,000 but they're out there. Real estate investors buy them every day and maybe you do that and I do too.

Over the years here is what makes you rich, rent goes up and principal pays down. Property value is going to appreciate. Your tax advantages will add up and your mortgages will eventually pay off and what happens then? You're paying a mortgage of $500 to $1,000 a month and when it pays off you get to keep that money.

It starts like a trickle, turns into a flow and then it turns into a flood. I am not promising you it's going to work exactly like that but the odds are in your favor, you've got a royal flush, you just need to stay in the game in order to win. If you'll invest in real estate and stay in the game and don't quit eventually you will win.

Go to www.dennisjhenson.com for more educational material and information.

How to Get Started Investing in Real Estate

Have you ever tried to solve  the Rubik's Cube? The Rubik's Cube is like investing in real estate because it looks easy. You just take this little cube and start twisting it around until you get all the colors the same on each side, it looks easy but it's very difficult. I've never been able to do it. I don't have enough patience to work on a puzzle for two to three days. I even tried it with the instructions and got a little further along but even with the instructions it's very hard.

What has that got to do with investing in real estate? It looks easy and even with the instructions it's still going to be difficult. If you want to invest your money there are a lot of different ways to do it.

What are easy ways to invest money and get money back? Bank CD's, stock market, mutual funds, bonds, stock certificates, bank certificates, over the counter investments versus real estate. If you go to a bank and tell them you want to invest $10,000 in a CD how long will that take? Maybe fifteen minutes—you just fill out the paperwork and they take your money and your CD starts making money for you. If you want to buy stock you sign up for a Brokerage Account and then you can get on the internet and buy whatever you want in just a matter of seconds with the click of the mouse.

When you're investing in real estate it isn't like that—it's much more complicated and there's risk, probably not as much risk here but if you have a really good year on investments you might make 5%. If you have a really great year in stocks you might make 10%, last year on my mutual funds I think I made 20% but that doesn't happen every year. If you have a really good year in real estate you could make 100% or even 500%, there's no limit if you know what you're doing.

Types of Real Estate

Raw Land

Commercial

Hotels

Apartments

Duplexes and Fourplexes

Single Family Homes

The first thing you have to decide to get started is what kind of real estate you're going to invest in. If you start with commercial real estate it's going to be difficult. If you buy a hotel you're going to be in trouble because you don't know what you're doing and you're going to lose your shirt.

There's raw land, commercial real estate, hotels, apartment buildings, duplexes, fourplexes and single family homes. Out of all these—single family

homes are the most plentiful. If you're going to get started wouldn't it be easier to just start with something simple and move up?

There are a few things you're going to need before you get started in order to just be able to do this business. You're going to need your time, energy, motivation, knowledge, car, telephone and office supplies etc.

Things You Will Need

- **Time**
- **Energy**
- **Motivation**
- **Knowledge**
- **Car**
- **Phone**
- **Office Supplies**
- **Place To Work**
- **Computer**
- **Small Tape Recorder**
- **Maps**
- **Access To Money**
- **Valuing System**
- **A Good Team**

Carleton Sheets talks about one woman who is blind and she is a Real Estate Investor. She doesn't have a car. She reads the classifieds in Brail and buys over the phone and has a group of people that do contract work for her and she makes money investing in real estate.

You don't really have to have all that stuff but if you're not blind you should be able to do as well or better than she does. You really need a computer. I push getting a small voice recorder. I keep it in my car so if I'm driving around and see a house where all the bushes and grass are overgrown and it looks

abandoned I make a note on the voice recorder to check on that address. If I see one with a sign out front that says "must sell" I'm probably going to capture that on the recorder and call when I get home and find out how desperate they really are.

Listen to CD's while driving around so you can learn to be a better Real Estate Investor and when you get an idea off a CD capture it on the voice recorder.

You're going to need maps if you don't have Mapsco. If you're going to be in this business you need to be able to locate properties.

You have to have access to money, notice I didn't say you have to have money—you just have to have access to it. You don't have to use your own money. In fact even if you have a lot of money in this business it won't last long, you're still going to have to find some money. You can't use all your own money, you don't have enough—you're going to be able to find more deals than you have money.

You will need a valuing system and this is hard. When you see a house you might think you know what the value is—but you really don't. You may have an idea—but even if you've been in the business for years you've got to do some research. You need to contact your realtor or get comps somewhere else—or you have to get it appraised.

"Turbo Bidder tells you what to bid!"

You've got to have a way to know exactly what the house is worth at its full value once it's fixed up. If you don't know that and you try to do some investing you're going to lose your shirt so that is a critical element. I invented ***Turbo Bidder*** which is an investing tool similar to Turbo Tax. It allows you to

input the information on the property and at the end it tells you what to bid. You can take the print out to your Banker or Mortgage Co. and it has all the information they need and they'll be very impressed with this. The information on Turbo Bidder is on my website, www.dennisjhenson.com.

Put Together a Team

- **Mentor**
- **A Real Estate Attorney**
- **One or More Realtors**
- **Bankers, Mortgage Brokers, Investors**
- **A Title Company**
- **An Insurance Agent**
- **An Accountant**
- **Grass Cutters, Cleaners, Handy People**
- **Carpet Cleaners**

You will need a good team on hand. First, you will need a good mentor. Find someone that has proven themselves in the real estate investing market.

Next and just as important is a Real Estate Attorney—the person that will keep you out of trouble—help you set up your business and answer your questions. The first attorney I had was not a Real Estate Attorney and it caused so many problems because he couldn't answer my questions. You need a real estate

attorney that knows the laws in the state of Texas or whatever state you're going to be working in so you can call them with any questions you may have. That is a key factor.

You'll need realtors. You'll need one realtor that you can call to do something even if they aren't going to profit from it. You'll need several realtors that are always looking for deals for you because they know you're serious about buying.

You need access to money. Make friends with bankers—you need to know mortgage brokers, investors—find a Title Company that will work with you and treat you special. All Title Companies will work with you but you need one where you can request timely closings or have some other business handled quickly. If you work with them often they'll do it for you.

You need an insurance agent, an accountant to help set your limited liability company up or your corporation or to make sure that you don't intermingle your funds with spread entities funds and that keeps you and your money safe.

You need people to keep your houses looking good inside and out so they will rent or sell. That's just the tip of the iceberg but they are all critical. If you don't have these people you need to find them if you're going to be in this business.

Let's Start Investing

- **Pick an Area**
  - **Choose Some Zip Codes**
  - **Mark a Section of a Map**
- **Set Criteria**
  - **Number of Bedrooms, Bathrooms & Parking**
  - **Square Footage, Age & Price Range**
  - **Extras**
    - **Pools, Spas Etc.**

Teaching you how to invest is like teaching you how to swim without being in the water. I can give you all kinds of advice about swimming but until you get in the water you're not going to learn how to swim. What you are going to learn now is just going to be theory, something to get you started.

If you really want to get started you've got to make an offer, actually do something. Here is how to get started: Pick an area but don't pick a large area such as a large city—that's too much territory. I've got one house in Rowlett and one house a block from my house. I'm going to make about the same on both of them but if I had it to do over again I would buy two houses a block from my house because when something goes wrong with the house in Rowlett it's a long drive over there.

Pick an area where you like the look of the houses and the neighborhood is nice and clean where people would like to live. That's the kind of area you want and here is the first step.

Get a map or Mapsco and circle your area. Drive around in that area and make notes on your voice recorder and buy a house in that area. You need to "think" like an investor.

There are three or four zip codes that I use for my area and it doesn't matter if someone else uses the same ones. You just need to pick your area and be comfortable with it.

What are you looking for, what kind of house do you want to buy? How many bedrooms, bathrooms, what size garage, covered parking, range of square footage—so when people call you and tell you what they found and it doesn't meet your criteria — you'll know you aren't interested. It will save you a lot of money and time once you learn that.

Are you going to buy houses with power lines going right over the property? I think that's a mistake but it's up to you, it's your criteria. Are you going to buy a house with a pool—I will never do it again but that's up to you. Deciding on your criteria will get you started.

After you know where you're going to buy and what you're going to buy—how are you going to do it—how are you going to find these houses? There are a lot of different ways—for sale by owner, ads in the paper (both yours and theirs).

You can work the foreclosure market which is a market in itself. You can do that and nothing else. It's hard but you can make a good living.

Decide on Strategy

- **Contact "For Sale by Owner"**
- **Ads in Papers (Theirs and Yours)**
- **Foreclosures**
- **Empty Homes**
- **Real Estate Owned by Banks (REO)**
- **Housing & Urban Development (HUD)**
- **Veteran's Administration (VA)**
- **Property Auctions**
- **Probate**

There is also real estate owned by banks (REO). You can make friends with bankers so they will call and let you know when they have foreclosed on something. You can work HUD or VA or other property auctions. I once believed you couldn't make any money working these public auctions but they had one near my house one day and I decided to go—hardly anyone showed up. It was a $200,000 house that went for $109,000 and I decided maybe you can make money on these auctions. I wasn't prepared or I would have bid that day.

Research

- **Locate Promising Properties**
- **Make Owner Contacts**
  - **Ask "WOW" Questions to Find**
    - **Determine Motivated Sellers**
    - **Properties With Possibilities**
- **Do Research**
  - **Determine After Repair Value (ARV)**
  - **Visit to Check for Needed Repairs**

You can't do all these auctions. You have to try a few and use the one that is comfortable for you. 95 – 96% of the houses I buy are HUD houses—I have the system down. My secretary and realtor do all the work and all I do is decide what to bid on and then the bid process goes into effect and I buy one or two a month.

There are one or two other auctions that are pretty easy and I work those occasionally but decide on what your strategy is and learn it. If you want to work another one learn it and research it after you have gotten the first one going.

"Remember the "WOW" questions"

Let's say that you have done the newspaper strategy and you've called ten people or found ten ads for property you might be interested in. If you call ten people how many are going to be there to answer their phone? Maybe three so if you want to talk to three people a day you've got to uncover ten prospects through driving around or newspaper ads. You will have a list of ten and I suggest that you contact three people a day. You'll ask them the "WOW" questions that are in Bill Barnett's book "Are You Dumb Enough to be Rich".

W – What is it worth?

O – How much do you owe?

W – What will you take?

When you ask the seller what the house is worth they'll answer you immediately. When you ask them what they owe and they tell you it's none of your business are they a motivated seller? ***No*** and there is no use in wasting your time—you might give them one more chance and tell them you're interested in purchasing their house and this might be some information that you need in order to work it out. If they say "no" they are not going to sell you their house at a discount so just move on to your next call.

It's all about using your time most efficiently. If they tell you what they owe go on to the last question which is what will you take for it and make a note of that. Ask them more questions about the house to see if you want to go see it or eliminate it.

In *Robert Allen's book "Nothing Down"* there is a wonderful form for evaluating houses so you find out whether you want to go see them or not. I suggest you get that form. You want to determine if the sellers are motivated and if the property has potential.

After you have found a couple of properties go see them and call your realtor to find out what the appraised value or comp value is. While you are at the house

fill out the repair form found in Turbo Bidder that will tell you what it will take to fix it up. That's something that you will just have to learn through experience.

Say it's a $100,000 house all fixed up, subtract the $10,000 it will take to fix it up and that's what you will sell the house for which would be $90,000. You hold it for three months and you have to figure that cost and miscellaneous cost, and a number of other things and you'll be bringing that price down. What you'll find out with a $100,000 home is you will probably offer $65,000.

> ***"Make offers that if accepted will insure you will make a good profit"***

You need to wake up now because here is where you'll make money. ***Make offers***. If you make offers that if accepted will insure you'll make a good profit from your investment how can you lose and why wouldn't you make them? I had an acquaintance tell me she was trying to buy a house and she thought it was worth $90,000 but they're asking $100,000 for it and I told her to offer them $80,000. There was just silence on the phone and then she said she thought they would be insulted with that offer. I told her I must insult fifteen to twenty people a week then.

If you're going to invest in real estate you just have to offer them what it's worth "to you" with a straight face because if you offer them more—you're going to lose. When they first hear it they may be in shock—but there are a lot of reasons people sell. They may be sick and they just don't care, they may be

getting divorced and don't want to see the house again—they may have inherited it and it's nothing but a headache.

That's why Home Vestors buys hundreds of thousands of houses every day. They're out there because people have problems, they have moved and are paying two mortgage payments, they just want out and if you're there they will sell you the house. Negotiate with the seller and of course if you're doing auctions—(HUD, VA or Bank Auctions)—you won't have to negotiate, you just place your bid and wait.

Make Deals

- **Make Lots of Offers**
    - **This is a Key to Success!**
        - ***"Make offers that—if accepted—will insure you receive a good profit from your investment"***
- **Negotiate With the Sellers**
    - **Price**
    - **Terms**
- **Get Signed Contracts**
    - ***"Verbal offers are not worth the paper they are not written on"*** **Carleton Sheets**

If you put in a lot of offers every once in a while you'll get one. Once you make your name as a real estate investor people will call you and tell you they're going to be foreclosed on (sometimes in a matter of days) and do you want the

house? They're going to lose it to the bank and they want to know if you can give them something for it.

I bought two like that. I told them I would give them $1,000 and they were happy. I got the house and the bank was happy because they got their back pay. The numbers have to match but it happens all the time.

You have to learn to negotiate. That needs to be part of your training because the better you get at it the more money you'll make. You've got to be able to talk with the sellers but the best thing to do is find the sellers that are motivated and it's easy to talk to them. The more motivated they are to sell the easier it is.

You need signed contracts once someone makes an agreement with you because as Carleton Sheets said ***"A verbal offer isn't worth the paper it isn't written on".*** If someone agrees to sell you a house at a really good price don't leave it up in the air, get them to sign a contract so they feel committed to you because someone else might come along and offer them another $500 and the sellers will go with them. You have to lock it in.

> ***"Just before you get ready to close have the title company give you the closing papers because 100% of the time there are mistakes........."***

You've got someone to sell you their house or you want to bid on one. Now you've got to get the money and you're probably going to need a mortgage. You need to have that set up with your mortgage broker or your banker.

Prepare

- **Get money together**
  - **For the down payment**
  - **For closing costs**
- **Prepare for and go to closings**
  - **Have Title Company prepare documents**
  - **Inspect closing documents for errors**
- **Take ownership**
  - **Do fix up**
  - **Start the marketing process**
    - **To rent**
    - **To Sell**

You're going to need money for a down payment and closing costs. A lot of people don't realize when they buy a $100,000 house it's not going to cost them $100,000. It's going to cost $105,000 to $107,000 because to get it through closing there are additional costs for the Title Company and for the mortgage. Tell the Title Company you have a house you're purchasing and provide them with the address and put the paper work together.

They'll do all the work for you—***but right before you get ready to close have the Title Company give you the closing papers because 100% of the time there are***

mistakes and about 99% of the time those mistakes aren't in your favor. They're usually in the Title Company's favor, the Mortgage Company or the other party. You need to be sure you find those mistakes because every time you find one you've put money in your pocket.

> ***"IRS is going to eat you alive if you buy a house and sell it before a year"***

You've bought it, gone to closing and you own the house. Now the work starts because you've got an empty house and the longer it sits there the more it's going to cost you. The number one cost in this business is "holding".

When you purchase a house you need to have something in mind—you don't just get it and then decide what to do with it. Are you going to rent it, "EZ rent to own it", sell it—what are you going to do? Some people think investing is buying a house, fixing it up and selling it and making $20,000. That is not investing. Investing is when you go to the bank and put money in a CD and keep it for a year.

If you want to invest in real estate you've got to put your money in and let it grow—and it grows by renting it out or selling it to someone over a long term so you can help them improve their credit and sell it to them after a year. Why do I say after a year? ***IRS is going to eat you alive if you buy a house and sell it before a year. They're going to take your profit***. If you hold it a year and a day then you're what IRS wants you to be, a "long term investor" and your tax rate drops way down.

If you're just moving along renting several houses and one year you decide you need some cash and you flip several houses the IRS may come in and say you're not a renter, you're a flipper so we're not going to give you any of the tax breaks. You need to have a good accountant and attorney so you know about these things.

Success is Like Starting a Fire

- **Starting a fire requires**
  - **Fuel**
  - **Oxygen**
  - **Ignition**
- **Investing Success Requires**
  - **Fuel = Good Deals**
  - **Oxygen = Money**
  - **Ignition = Your Energy**

Now, we've come through the whole process. Let me give you a little formula to take with you. Getting started investing in real estate is like starting a fire. You have to have three things to start a fire— fuel, oxygen and ignition. To get started investing in real estate you need fuel (good deals), oxygen (money, if you don't have money you are not going to do it), and you need ignition (energy) which is the most important part. You have to be able to uncover the money.

There are people with money and they'll work deals with you, they'll loan it to you and you have to work as hard on that end as you do finding the deals because the work is you and then the other two parts are the money and the deals. If you find a lot of deals and don't find any money you're not going to get the deals. You'll use your money up and you'll be through. It's like the person that said they were going to buy notes because you can buy a $100,000 note for maybe $50,000. If you have $50,000 you'll only be able to buy one note and then you're out of business. Your cash flow is gone so you have to remember those three things in order to make it work.

> *"You are going to become what you think about…."*

Continuing education is key because I didn't teach you "how" to do this, I just told you about it, you've got to go do it. If you want to learn more read Bill Barnett's book "Are You Dumb Enough to be Rich" and get Carleton Sheet's "System" because it is like an encyclopedia. Any questions you have are answered in that book. It's a big book and it has a lot of chapters.

Read Robert Allen's "Road to Wealth", "The Challenge", "Nothing Down" or "Nothing Down for the 2000s"—just get his books. Then go to "Nightingale Conant"—you can go to all these links from my website and pick out the CD's and tapes. If you're not listening to CD's when you drive around you're not going to make it, there's too much to learn. You need to consistently be listening to different angles and formulating.

You will see people on TV that say they have made an incredible amount of money in a short amount of time but that's a very small percentage that ever do that. You can make a lot of money in this business in four to five years of hard work day and night.

You have to think of this as an entirely new job. You work at least eight hours a day at this just like you would any other job and if you don't you'll probably never make it as a big real estate investor. If you just want to invest $100,000 of your own money you can use these techniques and go out and buy one or two houses and over the years the property values will grow and you will make money, more than you could in any other way.

You're going to become what you think about so if you think about being at home and watching TV that's what you're going to become. If you're going to become a real estate investor you've got to think about real estate investing. You've got to think about it all the time and you've always got to be moving because it's going to take you a couple of years.

For more information and educational materials go to www.dennisjhenson.com.

A Dozen Ways to Buy Real Estate "Zero Down"

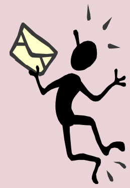
"A dozen ways to buy real estate with very little or none of your own money"—is it possible to buy property with nothing out of your pocket—have you done that before?

One young man—after listening to some of the training materials that I offer on my website—ended up going to closing with zero down.

Someone else had a line of credit and he was about $5,000 short so he needed to figure out how to come up with that extra $5,000 to buy a property for cash. He called his Credit Union and they loaned him $13,000 on his used car with a very good interest rate.

This is amazing because I'm going to discuss a dozen ways to buy real estate and this person used a thirteenth way so keep that in mind because there are hundreds of ways to buy real estate. I just picked out twelve that work really well and will help you get started but by using an asset that you have—a car, boat, a mortgage on a home that you still own, you can use that money and not have to come up with any of your own.

What is the easiest and best way to acquire financing? ***Number one is owner financing***. There are many reasons why owner financing would be the best.



#1 Owner Financing

- **No Credit check**
- **No loan Apps**
- **No Banks**
- **No Waiting**
- **No Closing Costs**
- **No Stress**
- **None of Your Own Money**
- **Better Interest Rate**

Do you think a home owner would sell you a home and just finance it? That happens all the time because if they are a motivated seller—which is what you want to find—they're going to do whatever you want them to do and it is up to your imagination to structure the situation so it fits your needs and their needs. Why would the seller be motivated and want to sell a home that bad?

- Maybe they lost a job and can't afford the payment
- Their company has relocated them
- They're living somewhere else and paying two mortgages

A mortgage is $1,000 to $2,000 a month and when you have a second one it's a lot of money to come up with every month. Other reasons to sell could be it

was inherited, a divorce, illness or age. If they got a divorce they may not even want to see the house again—they may just give you the house. I have had two tell me to just take the house. They are possibly tired of dealing with renters.

Owner Financing: With owner financing you can name your own interest rate— where you may be 6, 8 or 10% with someone else you may be able to talk the owner into 0%—just a payment every month with a balloon payment at the end. Sometimes you don't even mention paying interest, you just say here are the terms. What would the drawback be, why would owner financing be hard? It's possible that they own it outright. About half the houses are owned outright. It's possible they have a mortgage on it but it's a little harder to do because you actually have to talk them into loaning you the money.

Partners

- **No Credit Check**
- **No Loan Apps**
- **Less Waiting**
- **None of Your Money**
- **Better Rates**
- **Easier to Find**
- **But**
  - **Some Paperwork**
  - **Banks Maybe**
  - **Some Closing Costs**
  - **Stress**

Partnerships 50/50—60/40: Partnerships have some similar advantages, no credit checks, no loan applications, less waiting, you don't use your own money, better rates and it's easier to find than the owner financing. There are a lot of people out there that have money in their IRA's, or just simply have money.

I have an investor that just sold a Mobile Home Park and he's got a lot of money and he is going to get 5%—that's the best he can find. If he works with me he's going to get a lot more than 5% and he is going to be secured by real estate so he's safe.

There are some problems that you don't have with owner financing. You're going to have some paper work because if you're using someone else's money you have to protect them and yourself—or you can get into a lot of trouble. That's where your Lawyer and the Title Company come in. Make sure you have done all the necessary things. With a partner you can still go to the bank. You don't have to have a partners' money. You just need their credit which is how I got started.

All of these gurus that I listen to whether it is Robert Allen or Bill Barnett and some of the others I will discuss, they all talk about—*"back when they got started with partners".*

Carlton Sheets gives a long talk about when he got started, how he lost his job and he took a class where he learned about funding. He then went out and bought an apartment building using a partners' credit.

That is exactly what I did, I had a friend with good credit and I was willing to do the work so all he had to do was go to the bank and sign the papers. Once he did that I had the credit. After a couple of years I went to the bank and asked if I could take my partner's name off the papers. They said I could because they didn't even know him. They had never seen him except when he signed the papers. Then I had his good credit and mine was good too.

You're going to have some closing costs because of the paper work and there is a lot more stress dealing with partners because you have got to keep your partner informed and happy.

Partners

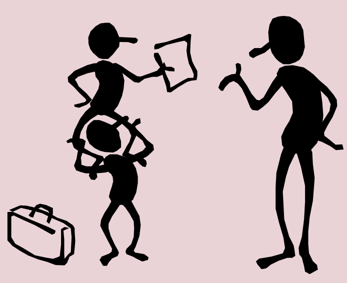
- **Who are prospective partners?**
  - **Anyone with money**
  - **Professionals—Doctor, Dentist, Accountant**
  - **Friends**
  - **Neighbors**
  - **Co-workers**
  - **Church**
  - **Club Members**

“There’s no shortage of good deals”

What it takes to attract a partner is simple—“***good deals”***. You need to make a note of this—***there is no shortage of good deals***. There are more deals out there than you can work by yourself—you don’t have enough money to work all the deals. If you had several million dollars it would be gone just like that because you would be able to get the deals. If you can close quickly there are a lot of good deals. Partners are interested and you’ve just got to find them. You let them share in your tax breaks and they really like that. They want profits and it’s prestigious for them to say they own property here and there. Those are good sales pitches for your partners.

Partnerships

- **What would attract a partner?**
  - **Good deals**
  - **Tax breaks**
  - **Profits**
  - **Prestige**



Investor Loans: What's the difference between a partner and an investor? With a partner, you're going to give up a lot of your profit. With an investor you pay them a percentage. With a partner the percentage is probably going to be 40 to 50% and with an investor it may be 10% or 12% so which one is better? If you can find people who have money in their IRA and they want to get 10% — 12% interest, they're just looking for security, a good return on their investment and they want liquidity. Liquidity may not mean they can get their money right now but maybe they can get it in six months or a year.

Ways to Find Investors

- **Run ads in papers and tabloids**
- **Put on your business card**
- **Put out brochures in professional offices**
- **Put out brochures in public places**
- **Go to investment club meetings**
- **Talk to everyone you meet about investing**
- **Search the web**
- **Get a web site**

There are a many ways to find investors. You can run ads in papers, tabloids, put it on your business cards, brochures in professional offices, and public

places like the court house. I put mine up where I get my hair cut and in donut shops. You can go to investment clubs like we have for AREA (Arlington Real Estate Association of Investors).

At a couple of our meetings we had investors there and they didn't want me to say who they were. At some of the meetings we had millions of dollars sitting there and I told everyone but nobody talked to them—***but I did***. You never know where you're going to find someone with money.

Investor Ad

- **An ad for an investor might read...**
    - **Potential earnings of 12% - 18%**
    - **Secured by real estate**
    - **Short term 3 – 12 months**
    - **Call for details 817-371-8658**
    - **Or go to www.dennisjhenson.com**

Talk to everyone you meet, talk to people at the grocery store and search on the web. Investors are out there—you can put it on your web site like we did on ours. Ask people to call you if they have money to invest. You can tell them they're going to get 12%-18% which is better than they're going to get on their CD's and it's probably better than they can do consistently with mutual funds.

Mutual funds will pay you 20% or even 25% some years. That's not every year but with investing it's consistent because it's secured by real estate which is important. If you get your contact information out there for three to twelve months consistently you will have people contact you.

Subject To: If someone has a $100,000 house with a mortgage of $75,000 that they want to sell you and you can't get a loan or just don't like the terms of the loan—make them an offer. Ask them to let you pay the note and also give them a note for the rest of it or some money for the difference.

Subject To

- **No Credit check**
- **No Loan Apps**
- **No Waiting**
- **No Closing Costs**
- **None of Your Own Money**
- **But**
    - **A bank is involved**
    - **There can be stress**
    - **Proceed carefully**

Do you think "subject to" is possible or legal? It is and it happens all the time. It's just hard to talk them into it. There's no loan application, no waiting, no closing costs and you are not using your own money but there's a bank involved. It's the bank they already have the loan with and all those loans are going to say that if you do anything like this—we can foreclose—we can call the loan. Do you think they will do that? They probably won't but if they do you still have three months to get another mortgage.

It will take the loan company three months to be able to do anything. They'll contact you and say you have broken your promise but I've never heard of that happening and these deals happen hundreds of times a day. I have got two like this. The only problem is there can be a lot of stress and you need to be very careful because if you take ownership of the house the sellers owe the money. If you don't pay that mortgage, the sellers can sue you and win and you're going to lose everything, not just the house, they're going to get punitive damages and everything else.

I'm not an attorney but I'm telling you that you better proceed very carefully and make sure you have the money to pay the mortgage or you're going to have some problems with it. I would not suggest doing this if you're a first time investor—I would make this something you think about and begin to learn more about. Have your Title Company and attorney write up all the papers so you get the property in your name and the bank or Mortgage Company still has a loan on the property.

The people that sold the house to you are still responsible for making the payments but you're making them and you still go to a closing.   This is an area of possibility for someone that's looking at avoiding foreclosure. I have people call many times on Friday saying they are facing foreclosure on Tuesday. You better have a Title Company that's willing to work and you better have your ducks in a row as to how to figure out what all could be wrong with the house.

You need to ask them how much they owe on the house and how many payments they're behind. If it's a $100,000 house and they owe $80,000 and they're behind 8 months in payments it is not going to be a good deal because of the legal costs they have added. If it's a $100,000 house and they owe $40,000 and they're behind 3 months on payments you have a good deal. Give them a couple of thousand dollars and do a quick run sheet to see if there are any liens on the property.

You have to be careful because if people are behind on their mortgage payments they're probably behind on paying a contractor for maintenance work such as roof work or carpentry work and liens can be placed on the property for that work. You have to pay those liens if you want to sell the house. Sometimes you get a house like that and you can't sell it, you just have to rent it out forever. Just keep that in mind if you ever get a house that you can't sell, you can just rent it out.

100% Loans

- **All You Need is:**

  - **Excellent credit**
  - **A few profitable years behind you**
  - **A good friend for a mortgage broker**

100% Mortgage Financing: For a 100% loan all you need is perfect credit, several years of profitability in your business and a good friend that's a Mortgage Broker and you can get a 100% loan. They're harder to get now than they were previously.

"Hard terms" not hard money..."

Hard Money Loans: Hard money is a term that's thrown around a lot and I researched it on the internet. I want to learn and the best way for me to learn is to teach others because then I have to do the research. I looked for the terms that actually explain exactly what this is, a definition.

Hard Money

- **Ruff Definition = No red tape Real Estate and Construction loans with the asset used to guarantee repayment. In the event of a default, hard money is repaid by the borrower with the collateralized property.**
- **Hard Money lenders can be a good money source for real estate investors – if you find the right deal.**
- **Hard Money Lenders**
  - **Starwood Mortgage**
  - **Invest Well**
  - **HardMoneyFunding.com**
  - **HardMoneyDirect.com**
  - **BarclayAssociates.com**
  - **UnionHomeLoan.com**
  - **Bmortgage.com**

I have found a lot of definitions but none of them said this is an exact definition—it is just a slang term. *It should say hard terms not hard money because what you are going to find is you are going to have to pay three to five points up front, you are going to pay an interest rate that is going to kill*

you and it is only going to be for four to six months and if you don't pay it they get the property so those are pretty hard terms. This is a rough definition, I got this as close as I could and it's no red tape real estate.

The asset is used to guarantee the repayment. Hard money lenders can be a good source if you find a deal that needs to close quickly and it's a really good deal. If you find a piece of real estate that you can get for half price you can afford to deal with these people. Some hard money lenders are Starwood, Invest Well, Hard Money Funding and Hard Money Direct. If you google "hard money lenders" on the internet you'll find pages of lenders.

Hard money lenders are primarily concerned with the value of the property. If the investor defaults the lender is going to get the property so that's the key but if they told you their terms it would be totally different because they aren't a Mortgage Company or a Bank, this is somebody that's trying to invest and make a lot of money by investing in a short period of time and if you do a six month loan and you go back to them and say you are about to close in another week they may just say "no". They may tell you to pay them money or give them the house—so what you're doing here is very risky.

You have to know what you're doing. The only reason I would ever use one would be if I have a deal that's so good that I know as soon as I buy it I can make other arrangements, get my money back and pay them off and I'm going to lose all the points. A lot of them have early payoff penalties. They'll charge you in the front and at the end so just get ready because it's hard terms. When you think about "hard money" think about "hard terms".

Buy and Sell a Contract

- Tie up Property With a Note
- Sell the Contract to an Investor
- Have Simultaneous Closing

Buy And Sell A Contract: Buy and sell a contract is easy, you just tie up the property by using a note. You just sign the note saying you'll pay so much money in the future with some kind of terms and then you sell the contract to an investor. You're not out any money—you just find a good deal and take it to an investor like me.

Auctions

- **Tie up Property With a Note**
- **Sell Property at Auction**
- **Have simultaneous Closing**

Auctions: With an auction you tie up the property and then sell it at auction. You go find someone that wants to sell their house and make an agreement with them. Give them a note for a down payment and take the property if you know it's going to sell for a lot more. Have it sold at auction and then you have a simultaneous closing so that they sell it to the person that bought it at auction and you have an interest in the deal and you get a check and all you've done is the work.

Credit Cards: Credit cards are a great way to buy property. When you first start investing you start applying for credit cards. Get every credit card that you can. This does a lot of things and it helps your credit. The more credit lines you have the better your credit. The only problem is you don't ever use the credit card more than 30% of your available credit. If you've got $10,000 credit—never spend more than $3,000.

Credit Cards

- **Build Credit Card Available Balances**
  - **Apply and get cards**
  - **Always pay on time**
    - **Keep balances under 30%**
  - **Use all your cards**
  - **Call every quarter and ask for increase**
    - **Also ask for interest rate decrease**
  - **Apply for more cards**
  - **Continue this process**
    - **There is no limit to the amount available**
    - **Use cards for emergencies and great deals**

Every few months you want to go back and ask for an increase in your credit line. Use the card even if it's just for buying gas—use all the cards every month and pay them off. I am not telling you to get deeply in debt. I'm telling you to get a lot of credit. You apply for cards and increase the credit consistently and use the cards—then pay them off. If they have 0% for six months move all your money to those so you don't have any interest to pay.

My wife does this all the time. Only 10% of your credit score is having your credit pulled. Every time you get it pulled it costs you three points. That only goes up to 10%. If you are going to be an investor, you need to max that 10% out and forget about it. Then every time they pull your credit it doesn't cost you anything because you're maxed out. If it has been pulled 15 times—that's all that counts and it's not going to hurt it. Now when someone wants to check your credit it won't matter.

After ninety days some of them drop off but I just keep mine maxed out and my credit score stays at 680 or 690. I don't ever get to 720 but as long as I am getting 100% mortgages I don't care. Apply for more cards and continue the process. You can use these cards and when someone calls you on Friday and says they're going to be foreclosed on Monday, if you have $100,000 in credit cards you can do whatever you want to do.

Some of them will let you take cash out but with others you have to do it another way. You may have to go buy a boat and sell it but you can turn these into cash and I would suggest you start doing that now and in four or five years you'll have a $100,000 credit line. ***Only do this if you can manage credit cards without getting yourself into trouble.***

Options

- Are Options Legal?
- How Do Options Work?
- With No Money?
    - Spanish Moss
    - Portion of Rent
- Rent to Own vs. Lease Option

Sandwich Lease Options: Options are difficult but you can do it. I am thinking about one house I purchased where these people really wanted to sell their house. I also had a buyer that wanted the house so I went to the potential buyer and told him if he would give me $5,000 as a lease option I would buy the house. I then went to the person that had the house and I told them I would give them $3,500 down on a lease option but they had to give me the right to sublease it. They said okay so I paid them $3,500 down and $1,000 a month.

I sublease optioned it to someone else and they gave me $5,000 down and $1,200 a month. I got money at the beginning and I got $200 a month and it worked because both of them were happy.

One of my gurus said people get tired of processing those after a while—you can go back in two years and offer them less. I bought the house for $92,000 on a lease option and in two years I went back and offered him $70,000 and he took it—so it can work out for you but it can be kind of complicated.

HELOC

Home Equity Line of Credit

- **Buy a house well below market**
- **Move in**
- **Get a HELOC based on the market value**
  - **Example**

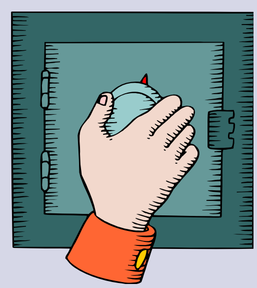
    $158,000 Purchase Price
    $ 7,000 Down
    $230,000 Appraised Value
    $ 32,000 HELOC
    $ 25,000 Net

<u>HELOC:</u>   Home Equity Line of Credit (HELOC) is good and we have this on our house. You buy your own house, a really nice house but it has to be a great deal.

Ours appraised at $230,000 and we bought it for $158,000 with $7,000 down. That sounds like money out of my pocket. We immediately went to the bank and got a HELOC for $32,000. When you subtract the $7,000 that we put down we put $25,000 in our pocket and had a nice house. That works if you can pay the second, if you have the money in order to do it and then the next step with that is every two years you do it again.

Combinations

- **Note and Owner Financing**
- **Note and Option**
- **Bank Loan and Note**
- **Subject To and Note**
- **Use Your Imagination**

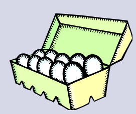


<u>Notes & Combinations:</u> Notes are like writing money. Creating a note is just like paying yourself money, it's just creating money out of thin air. If someone wants $100,000 for their house and if their mortgage is $50,000 offer them a $30,000 note and take over their $50,000 loan and then you have the house with nothing out of your pocket.

That's how notes work and they work great with combinations. You can do almost anything with notes. You can create a note with owner financing, options, bank loans, you can get a first mortgage and give them a note for the rest, Subject To with a note. You can just use your imagination. Once you learn how to create the notes the Title Company will do the work for you. You won't have to write the note you just need to know how it works.

Those are the dozen ways. If you don't learn anything else remember this—if you want to be a successful real estate investor don't drive around with your car radio on, don't ever do that again. Always have an educational CD in your car and always have books sitting around so you can thumb through them and read about things that are happening in real estate investing.

A Dozen Ways to Buy Real Estate With Very Little or None of Your Own Money



* Owner Financing	* Sell Your Contract
* Partnerships 50/50— 60/40	* Auctions
* Investor Loans	* Credit Cards
* Subject To	* Lease Options
* 100% Mortgage Financing	* HELOC
* 65% Hard Money Loans	* Notes & Combinations

For more information, educational materials and articles go to www.dennisjhenson.com.

Finding Good Deals

What is a good deal? ***You need to know what a good deal is before you start looking*** so you'll know what to look for.

You Find Good Deals by

- **Setting criteria**
- **Prospecting**
  - **Advertising**
  - **Farming**
  - **Networking**
- **Determining values**
- **Preparing offers**
- **Making offers**

If you've done the research and know that you're going to make some money on the property it's a good deal. The way you find good deals is by first ***setting your criteria***. After you know what your criteria is you're going to ***prospect***. You're going to ***advertise***, ***farm*** and ***network*** and then you're going to ***determine the value*** of the possible deals that you've found and ***prepare some offers*** and ***make an offer***, that's how it works.

"What kind of real estate are you looking for?"

What is Your Criteria?

- Number of bedrooms
- Number of bathrooms
- How many garage spaces
- Size range in square feet
- Range of age – Built from when to when
- Zip codes
- Price range
- Extras
  - Fireplace
  - Pool
  - Hot Tub
  - Media, Game Room
- Excluders
  - Neighborhood
  - Power lines

First of all ***what is your criteria***? If you're new to investing you need to think about this. What kind of real estate are you looking for? Hotels, apartments,

quadroplexes, duplexes, single family homes, empty land, you have to decide what it is.

In this book we will mostly talk about single family homes because I think that's the best way to get started. In a single family home you have to decide how many bedrooms. I particularly like three to five bedrooms. A two bedroom home is harder to move unless it's a duplex and even then I don't like it. Most people want two or more bathrooms and a double car garage or a covered carport. If you buy a house and it has two bedrooms and one bath and no garage or a one car garage it will probably not be a very good investment because you're going to have a hard time either renting it or selling it.

You need to come up with a range of square footage. I started out with about 1,200 to 2,200 square footage when I first started investing. Now it's 1,600 to 3,000. You need to look at houses and decide what the range of square footage is that you can afford and what the range you're thinking will move in your area.

Decide on an average range. Are you going to buy houses that were built in the 1930'3, 50's, 70's or 2000's? That's very important. If you buy newer houses there will be less work to do. If the house is only two years old there's probably nothing wrong with the plumbing or foundation.

You may just need some paint and carpet but if the house is fifteen years old then you've really got to look and if it is thirty years old you better have an inspector look at it because it is going to have a lot of problems.

Many times a good deal will look like it's a great deal. For example I bought a house that appraised for $132,000 and the people were about to have it taken away because they hadn't paid the taxes. I got it for $82,000. You'd think I would make a lot of money with that kind of spread. I thought it was a great deal. I ended up making $3,000 because I had to have the foundation repaired. When I was selling it the inspector for the buyer came in and it had to have a

whole new electrical system, so if you buy an older house you've got to be smart.

I buy newer houses now and I don't have to be as careful. That's something you have to decide for yourself. Come up with zip codes or a map and figure out your price range. When I say zip code or a map ***you've got to figure out what your area is***.

Some people think they're just going to buy houses in the D/FW Metroplex and I think that's a mistake. That's a big area when you have to drive forty or fifty miles to see your houses for minor problems so I keep mine to two or three zip codes. There are a lot of houses in those two or three zip codes so I have plenty to work with.

If there's a $200,000 house and I can buy it for $50,000 I would probably go quite a few miles to buy that house but it would have to be that good for me to drive far and my crew doesn't even like to go look and make a repair list if it's too far away. That's up to you to decide how far you want to drive. My suggestion is not very far.

Your price range will probably be lower when you first start. You might just be able to afford $70,000, $80,000 or $100,000 for a house. But as you get better at it and make more money you're probably going to want to buy houses that are $150,000 to $200,000. Those houses are easier to sell because serious people with serious incomes are looking at those houses.

What extras do you want in your houses? Do you want a fireplace, pool, hot tub, media and game room? Personally I like to have a fireplace but I wouldn't buy a house with a pool because you're buying an expense, an ongoing problem. If there's water in the pool the city is going to be coming around and if the water gets dark they're going to fine you and they'll keep fining you until it gets resolved and if it gets dark again they'll really fine you.

There are things as far as extras that you'll always want to have and then there are things that you would like to have and things that you want to totally exclude.

If the power lines are running over the back yard I'm not going to buy that house. I believe that a fireplace is added value along with three or more bedrooms, large closets, nice kitchens and large bathrooms, appliances, brick, garage door openers, jetted tubs, patios and decks, anything that will make the house more appealing. Spend a few minutes and write down your criteria so when your realtor asks—you'll have the information.

I want to tell you the story of my friend Keith. A few years ago when I was single there were three of us running around and going to dances and single clubs. Keith's mother passed away and we all went to her funeral and that was sad but in about a week Keith inherited several thousand dollars. The first thing he did was buy a red Cadillac. He decided to invest the rest of the money in a business so he could make it work for him.

We would drive around in his Cadillac and he kept asking me if I thought certain businesses were good investments. I kept saying yes and he finally said that I was saying yes to all of them. I told him that if it wasn't a good business it wouldn't be there. That's how businesses work, they all work, some people just may not like managing a bunch of high school students to make pizzas.

That's how it is in prospecting or learning how to find good deals. There are many ways, they are all successful. What you need to do is try a few of them. I'll cover a few of them.

Tactics

- Farming
- Running Ads
- Foreclosures
- Auctions
- REO
- Real Estate Agents
- Blanket Offers
- Short Sales
- Probate
- FSBO's
- Distressed Property
- Calls on Ads
- Birddogs
- Options
- Wholesalers
- Networking
- Direct Mail

You can *run ads*. Foreclosures are a full time business in itself; you can do just foreclosures and make money in real estate. Bill Barnett has a wonderful system. The letters are all written, the forms are all done and it's in his book but it's even better in his full system.

Go to *auctions*— most of the houses I buy are through auctions.

Real Estate owned: You would think a bank wouldn't sell you anything. If you'll visit a lot of little local banks you will find they have got a lot of repossessed

properties and they will sell them to you and they will give you a lot of good terms and try to help you buy them.

Real estate agents: I use several real estate agents all the time. I have one for buying, one for selling and some that are just looking for houses. I work with a lot of real estate agents and they bring me good deals and help me make a lot of money.

One of the ways to use real estate agents is ***blanket offers***. Have you ever listened to the tapes ***"Rich Dad Poor Dad"?*** There is a technique on them that says you get a real estate agent to bid 70% on everything that has been on the market for so many days. I listened to that and thought it was such a good idea I did it. I bid on hundreds of properties like that. I never bought one but I almost bought two or three of them and I could see that if I could have gotten the realtor to continue working on it with me it would have eventually worked but you have to talk them into it and they have to believe it will work.

The hard part is convincing the realtor to make all those offers for you. Some new realtors are hungry and will do it and if that same realtor would have continued to work with me she would have made a lot of money but instead of her some of these others are making the money.

Short Sales: That is a whole program in itself too. You can just do that and make money.

Probate. Probate Real Estate is purchased from an "estate" following the death of the property owner. The key is consistently getting the list of new estates and contacting the administrators.

For sale by owners: When you are doing your farming you go around and look at signs and we will teach you how to call those people.

Distressed properties: Finding houses where the grass is grown up and the bushes are grown and you can tell they are not occupied.

Call on ***ads*** from the paper.

Bird-dogging. Giving people your business cards and telling them you will pay them $250 to $500 to bring you a good deal.

Using options: You can actually buy houses without any money—you just tie the house up. There are organizations throughout the U.S. that if you tie those houses up they will buy them from you. They will give you the criteria and you just call them and they will buy it immediately.

Wholesalers: Someone in one of my meetings had a good deal on a HUD home he purchased. It was 30 plus years old or I would have been interested in it. If that had met my criteria I would have been talking to him after the meeting. Be careful when buying from wholesalers. Be sure you look the house over before buying it.

Networking: Go to Real Estate Investor Meetings.

Direct Mail: Carleton Sheets talks about a woman that is blind. She can't drive, she can't even see that money, she makes money in real estate by doing direct mail. It can be done and any of those tactics will work.

Farming is the best way to get started investing in real estate. This is the way I got started and it's the easiest and fastest way to go out and find a good deal. The first thing to do is get a map and draw a circle around your area or pick out some zip codes. You may want to drive around for a while to see if there are any houses before you make a decision and see if those houses are in nice neighborhoods and see if it's one you would want to own or rent out. You really need to select your area first so you know where you want to look and then go driving around.

One thing that's nice to take with you when you're driving in your area is a voice recorder. I keep one in my car and when I see a house that looks like it fits my criteria and it's kind of neglected I put the address on the recorder so when I get home I pull up the TAD and I know who owns it and you can use this for a lot of other things too.

If you're playing your CD's which I always recommend you do as you're driving— when you hear something that really stands out and you want to lock it in you just put it on your recorder and go home and put it in your reference file.

WOW Questions

- *What are you asking?*
- *How much do you owe?*
- *What will you take?*

Call for sale by owners: When you're driving around in your neighborhood you're going to see a lot of signs that say "for sale by owner". Call the number and ask three questions and the acronym for those three questions is "WOW", make a note of that because those are three important questions. (1) ***"What are you asking?"*** (2) ***"How much do you owe?"*** (3) ***"What will you take?"*** What's that going to tell you when you ask those three questions? It's going to tell you whether the seller is motivated because if you get to the second question and they say "that's none of your business" you're wasting your time and theirs. Just say thank you very much and hang up because they're not motivated.

If they really want to sell the house they're going to tell you exactly what they owe and how far behind they are on their payments or whatever else you ask them. The motivated sellers are the ones that have the good deals. The ones that just put a sign out in front of their house and are still living there are just testing the water to see if maybe someone will pay more than it's probably worth.

Stop at garage sales because a lot of people have garage sales just before they move and if they're not maybe they know someone that's selling their house. Just stop in and ask if they know anyone that might be selling their house because that is the business you're in. Tell them you're interested in buying and leave them a flyer or card and ask them to contact you if they hear of someone. You would be surprised how many leads you can get at garage sales.

Check the local newspaper: This is Carleton Sheet's way to go. He even has several tapes that tell you about what to say when you call. What do you say when you call the ads? Remember the "WOW" questions. Ask them those three important questions to see if they are motivated and to kind of get an idea what they want for their house.

If they say the house is worth $100,000 and they're asking $95,000 you're probably not going to do very well with them. If someone asks what your house is worth would you tell them what it's really worth or would you give them the ARV? You'll probably give them the highest number you can. Your questions are just to get the conversation started.

Go to the legal section and find foreclosures and look at homes for sale. In the legal section you won't call but you may see some in your area that you will want to check on. The foreclosure business is a whole business in itself.

Check out the REO's. Now if you go to Chase Bank and ask them about "real estate owned" are you going to get anywhere? No, you aren't going to get anywhere because it's a National Bank. What banks do you want to go to that may have some real estate? Credit Unions, City Banks, Community and State Banks will be the words you look for in a bank name.

The best one in the state of Texas is Justin State Bank. They've got rates there you won't believe, you save a lot of money but there are also banks in Fort Worth and the surrounding towns. These banks will be happy to talk to you and usually these small banks are so friendly and it isn't hard to find the right person because there are only five or six people that can make a decision and you can cash in on these things.

These are properties that the bank has loaned money on and had to take back or they are about to take it back. Sometimes they'll tell you they're about to repossess one and you can go talk to the people. You can actually make a living this way but you're spreading out your area when you do REO's. You've got to go further to get them.

Looking for vacant, run down, fire damaged and abandoned houses:

Talk to neighbors: When you're looking at these vacant houses go to the next door neighbor because if the grass is all grown up don't you think that neighbor wants someone to buy the house? They're so cooperative they're going to help you find them.

Research auctions: There are several kinds of auctions and several different companies that do auctions. When you're driving around there'll be a big yellow sign that will say "auction here on such and such date". It will have a website and you have to go to the website to do the research.

You have to find out how much they want down and what the terms are and how long before you have to pay the rest of it. It's all explained for you and they'll tell you when the auction is going to be.

When I first started I went to a lot of auctions and thought it was a waste of time because I would go research the house and the house would be worth $150,000 and I would say I'm going to pay $106,000. They would start the bidding at $80,000 and they would get it up to $135,000 and I could not believe these people were paying way too much for these houses. It was buyers that were going to live in the house that were paying too much. In their mind it's worth $150,000 so if they can get it for $140,000 they got $10,000 below market and they're happy and there are a lot of those at the auctions.

I had given up on auctions but one day they were having an auction just down the street from me and it was a pretty house and I thought I would go and see some investors there and do some networking and watch the auction. I had researched and knew the house was worth $200,000 and it was raining that day but I decided to go anyway in case the rain stopped.

Only three or four other people were there and it sold for $108,000. I wasn't prepared but I realized you can make money at auctions. The difference was the rain. Potential house buyers don't go house hunting in the rain and new investors don't go to auctions in the rain. If you know what you are doing you wait until it rains and go the auctions.

Someone once asked if I have been to a ***courthouse step auction***. You have a brief foreclosure then the courthouse auction and then you have the after foreclosure. I don't know many people that make money on the courthouse steps and if they do that's all they do and they're really good at it and they have some inside knowledge.

It takes a lot of work and then once you get there somebody else will probably beat you to it and the people that do that are very protective and territorial and they don't want you in that so if they see you and you're new they may just

overbid just to get rid of you. Maybe someone can do that and come teach me but I have never met anyone that makes any money at it.

Government Auctions: Government auctions are pretty much what I do because it's easy. VA and HUD are kind of the same as these auctions because you've got to be prepared way ahead of time. You've got to know what you're doing and how the game works. If you learn the game and know what you're doing there are a lot of opportunities.

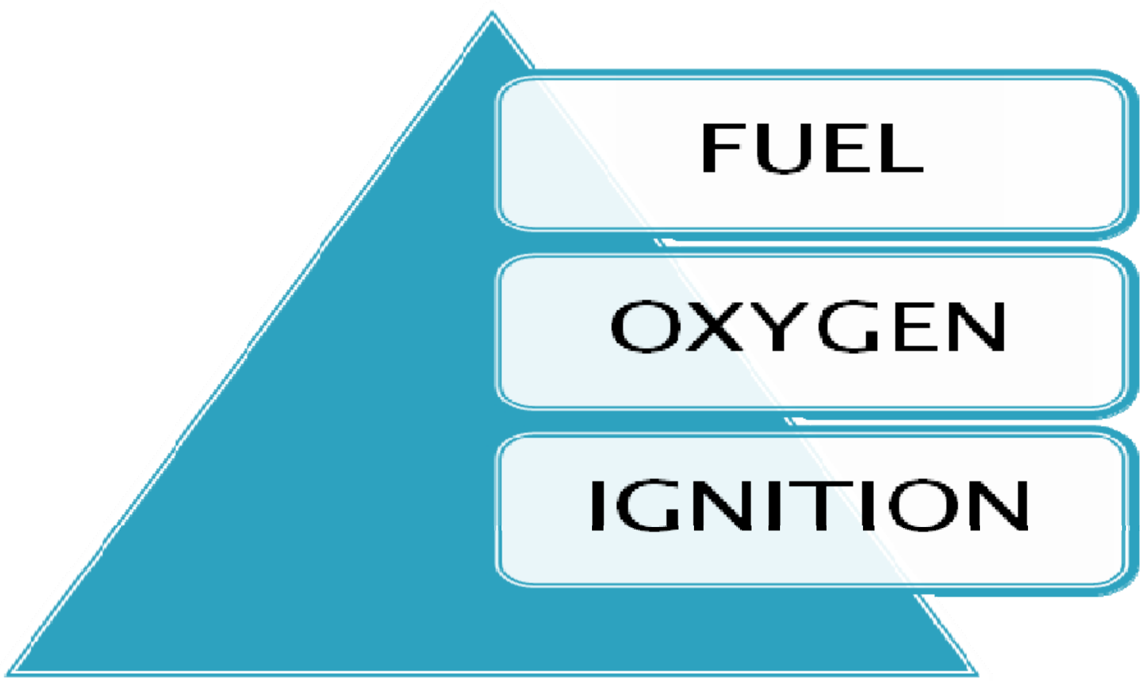
I remember being very unsure about getting into HUD because I thought there was so much competition. But there are only two or three other people that show up like we do every week and their criteria is different from mine so they're looking for different houses.

I do these other things too as they present themselves and many times people call me with good deals because they know I do this but If you want to get into this or any of the other ways of investing I suggest you just try several of them out and one of them will feel good to you.

The way HUD works is you have about a week to look at the house and come up with your figures and you have to have your bid in by midnight Sunday. If you've got a realtor that will turn your bid in on Sunday night (and I do), then you've got the whole week to do it and Saturday you can make your final preparation.

My secretary and realtor do all the work. I pick the sheet up and make the decisions on what to bid on and that's all I do and I'll make anywhere from $40,000 to $55,000 every time I buy a house and I buy one or two a month. Owning property is a good way to make a living but there's a lot of work that goes into managing everything.

No matter which of these others you pick you're still going to need to advertise. If you're going to be in the real estate business it's a marketing business.



Here is a big secret, finding good deals is the easiest part of the business, I can give you ten good deals any day. Finding deals is the easy part. What is the

hard part? When you want to build a fire there's a triangle. You've got to have ***fuel, oxygen and ignition***, those make up the triangle. The fuel would be the deals—like when I came to Texas I would see all this wood stacked out in front of the stores and I would wonder why. There would be a bundle for a couple of dollars and I couldn't believe people were paying for wood. I'm from Alabama and you can get all the wood you want for free.

It's kind of like that with the deals in Texas, there are just so many of them you can go find what you want but you've got to have the oxygen which is the money and the ignition which is the work and enthusiasm you put into it.

The enthusiasm is easy at first. Anybody has that enthusiasm when first getting started. If you do any of these tactics the deals will just come, you'll have so many you won't know what to do. The money is what stops so many people.

The money's out there but most people just don't want to do what they have to do to get it. The banks are going to ask you for page after page of information and if you haven't done it before and you don't have it in a file it's hard. If you go talk to investors they will want to know about your experience and why they should invest with you. It takes three or four years before you can really go talk with them and you're able to say just go look at my website and you can see what I'm doing and then they'll pull out their checkbook.

Advertising

- **Get and pass out business cards**
- **Run Ads in local papers and tabloids**
- **Pass out flyers or brochures**
- **Put up signs**
- **Send direct mail**
- **Get a website**
- **Place ads on the internet**
- **Put cards and flyers on bulletin boards**
- **Hand out business cards with $250 birddog fee**
- **Place ads in phone books**
- **Radio, TV, billboards, bumper stickers, and auto signs**

It takes time but the money's the hard part and part of this whole deal is *advertising*. If you want your business to work you've got to get it out in front of people. If you don't have business cards where can you find them? On my website www.dennisjhenson.com go to support materials and at the bottom of the page go to free business cards and they're really free, they are the same ones I used to use.

Run ads in the local papers and tabloids but I think The Greensheet works a lot better and is a lot less expensive.

Put up signs. Now if you put signs on the side of the road in Arlington the city has people that go around and pick them up and throw them away but if you have a house you can put your signs up in that yard. If you want to get good inexpensive signs, go to my website and click the link and you can get them at the same place I do.

Get a website. When I put my website up my business doubled just like that so it really works.

Place ads on the internet. There are hundreds of places that will allow you to advertise your house for rent or sale for free—you just post them on your site.

Put out cards and flyers on bulletin boards. Everyone gets their hair done and almost every hair salon and barber shop has a bulletin board. Put them up at donut shops, just keep some cards and flyers in your car so when you see a place you can put them up you'll have them with you.

Hand out your business cards with a $250 bird-dogging fee telling people that you want to find houses to buy and let them know what your criteria is.

Place ads in the Yellow Pages, radio ads, TV, billboards, bumper stickers, auto signs—just use your imagination. Market, market, market your business.

Networking

- **Investment clubs**
- **Realtors & brokers**
- **Visit local banks**
- **Probate attorneys**
- **Title companies**
- **Professionals = CPAs, insurance agents**
- **Friends, family, neighbors, associates**
- **Elderly people**
    - **Know what is going on**
    - **Want someone to listen to them**
- **Go to free real estate seminars**
- **Property managers, moving companies, relocation services, landlords, tenants, mail carriers, paper boys, gardeners, landscapers, service technicians, pest control people, water, gas and electric company personnel**

Networking is another great way and if you're going to real estate investor meetings you're already doing that. Never be exclusive with a realtor or broker. The more realtors and brokers you know all they have got to do is see something and pick the phone up and you can make a lot of money so you want to make friends with a lot of them. Networking helps.

Visit local banks. Let them know you are interested in buying foreclosures. They will call you when they have available.

Probate Attorneys—now that is a whole business of it's on. If you get to know several Probate Attorneys and they're your friends they can send you some really good deals because they know the people that are about to lose their homes. Those people will sell you their homes for amazing prices.

Title Companies, other professionals, CPA's, Insurance Agents, your family, friends, neighbors, associates, elderly people, they know everything and everyone.

Someone called me about something that was happening in our cul-de-sac and I told them to call the elderly lady across the street because she knows everyone in the cul-de-sac and she was able to answer their question.

They like to talk too so if you see an elderly person when you're driving your area stop and talk to them and let them know what you do and find out if they know anyone that might be wanting to sell their house. You would be surprised what they know, it's fun to talk to them and they'll appreciate you.

Go to Real Estate Seminars, the free ones and the $20 ones. I don't really recommend that you go the $29,000 ones. You can learn this stuff on CD's for a couple of hundred dollars.

Get to know other investors, property managers, moving companies, relocation services, landlords, tenants, mail carriers, paper boys, gardeners, landscapers, service techs, pest control people, water, gas and electric company personnel, all those people know about what's going on in the neighborhoods.

This is really important, before you ever place an offer on a home you've got to know what the home is worth. First of all check the tax value. This is not the actual value of the home, the value could be more, less or the same.

Why do you want to know the tax value? When someone is going to buy the house what is the first thing they're going to check? They'll check the tax value. If you get too far away from that number when you buy the house you're going to eliminate a lot of buyers that might have bought it or rented it to own so you need to know that number so you can stay in the ballpark.

Determining Values

- **What should you offer for a property?**
  - **Check the tax value**
    - **Is the tax value the true value? Why?**
  - **Get the comps**
    - **Is this the true value?**
    - **What is the difference?**
  - **Complete a financial analysis using Turbo Bidder**
  - **Complete a bid file or packet**

If the comp value of the house is $150,000 and the tax value is $110,000 you're going to have a hard time selling it for $150,000. You probably can but it may take several months to do it and it's expensive to let the house sit and because every month you hold it will probably cost you at least $1,000, the holding time is expensive. The higher the tax is the higher rent you can get and the higher you're going to be able to sell it for so don't worry about having to pay a few taxes. If you're going to hold it for fifteen years you want the

taxes to be lower but if you are just going to hold it for a few months or a year don't worry about it.

The true value in Texas is going to be the comp value of homes that have sold in the same area that were built around the same time with the same square footage. You need to go look at the house to see what needs to be done but we're talking about ARV (after repair value).

Complete a financial analysis using Turbo Bidder. If you really want to know what to bid for the house Turbo Bidder works just like Turbo Tax. It asks you all the pertinent questions for example address, square footage, comps, and on the last page it tells you what to bid. This is the number to bid, it is high enough to win some of the HUD's and get the house from people that are selling it and it is low enough for you to make a profit.

This is my system so if you really want to cut your time you should get the Turbo Bidder. There is an unconditional money back guarantee. If you use this for up to 90 days and if for any reason it doesn't work for you we refund your money.

Complete a file packet. On every house that I bid on I put the map, picture, comps, tax value (TAD), MLS Sheet and the Analyzer Print Out from the Turbo Bidder which tells me what to bid. If I want to borrow money on that house I just make copies of the print out and give it to the bank and the bank is always

impressed. They think it's amazing because it's everything they need and they like that a lot.

Constructing offers: You make single offers when you're talking with a bank or when you're doing auctions. You make multiple offers when you deal with individuals selling their homes. The multiple offers are either cash, terms and cash or just terms. You pay a lot less for the house if you pay cash and a lot more if it's just terms. You can learn a lot more about that when you listen to the CD's.

Constructing Offers

- **Constructing good offers?**
  - **Single offers**
    - **Auctions**
    - **Banks**
  - **Multiple offers**
    - **Cash**
    - **Cash and terms**
    - **Just terms**
  - **Written or verbal**
    - **Carleton Sheets says – "A verbal offer isn't worth the paper it isn't written on"**

You should always make written offers when it's not an auction. ***Carleton Sheets said "a verbal offer isn't worth the paper it isn't written on".*** Make three offers and you will have a lot better chance of closing the sell.

Making Offers

This is the key to your success!

- **Make lots of offers**
    - **Nothing down**
    - **Little down**
    - **Trade other assets**
    - **Use options**
    - **Be creative**
    - **Write multiple offer contracts**
    - **Use letters of intent**
- **Make offers that if accepted—will insure you receive a good profit**
    - **Offer 15% less than what you are willing to pay**
        - **This will give you room to negotiate**
        - **Your low offer might just be accepted**

The key to your success is making a lot of offers. It doesn't matter if they're auctions or for sale by owners. It is just an offer to purchase property from someone. In order to be a successful real estate investor you need to set a goal of making so many offers a week and set yourself a track to get there, like

making so many phone calls, go see this many houses and make this many offers. I try to make ten or more offers a week.

For HUD bids you make it over the phone. On the auction bids you just show up and call out a number, on your offers that you make to individuals, you use the regular real estate contract that you get from any realtor, board of realtors or on the internet.

It's just the Texas one to four Family Residential Contract. At the bottom of the fourth page in Special Provisions you just put (see attachment) and then you attach your three offers on the back. Once they accept it you write it on the first page and everyone signs it leaving yourself an out, "subject to the inspection of my partner" or subject to something else but they don't get an out once they accept it.

Make offers with nothing or little down. Trade in other assets, boat, car, equity in other property, vacant land, use options, and be creative, write multiple offer contracts, use letters of intent which are a lot faster than filling out a loan contract. If you want to hit a big group of people just send a lot of letters out. Make offers that if accepted will ensure you make a good profit. Offer 15% less than you are willing to pay, that way you have negotiation room especially with banks.

Summary

- **Make a plan**
- **Work on your plan each day**
- **Be consistent**
- **Study training materials**
- **Be persistent**

In summary, make a good plan, work on it every day, be consistent, always be studying training materials, always have a CD playing in your car, and be persistent. Don't let the money part stop you, you're just going to have to go find it.

For more information, educational materials and articles go to www.dennisjhenson.com.

Auctions

There are many ways to find good deals—in fact good deals in real estate are easy to find especially in this market.

Ways to Find Good Deals

- **Ads in Papers & Internet**
- **For Sale by Owner (FSBO)**
- **Empty Homes**
- **Realtors**
- **Foreclosures**
- **Short Sales**
- **Real Estate Owned by Banks (REO)**
- **Builders**
- **Wholesalers**
- **Probate**
- **Auctions**

There are a lot of homes that you can buy for way below market especially in a buyers' market. Some of the ways would be:

- Placing your own ads in papers saying you want to buy a house or you're looking for a fixer upper or whatever you need to say to get people to call.
- Place ads on the internet.
- Put ads in Craigslist—there are a number of free advertising services where you can just post your ads for free and people will start calling you.
- Put an ad in the Fort Worth Star Telegram or the Dallas Morning News (or whatever your local paper is) and it automatically goes on their internet site and it's throughout the state. They'll bring people to you even though the ads are a little expensive—you can still get lots of coverage by getting on the internet site.
- Another way is to read other people's ads. Go to the newspaper, The Greensheet which is probably the best one, Thrifty Nickel and read the ads and call on the ones that say they're about to lose their home or they must sell. Some of my students told me that renters are putting "must sell" ads in now because it brings in calls. If you call twenty numbers you're probably going to get one or two people that actually have a house for sale.
- To find "*for sale by owner*" drive your territory and make notes and call those people. That will get you places to find good deals such as empty homes where the property looks neglected.

- Tell realtors you're looking for houses, to find deals and give you a call.
- A good place to find foreclosures is at garage sales. Take your business cards to all the garage sales and ask if they know anyone that's selling their houses—you never know they might be selling theirs. A lot of people have garage sales because they're moving.
- There's a whole system to finding foreclosures in Short Sales. Real Estate owned by banks (REO) is an easy thing but it needs to be a local or state bank. If you go to a Bank of America and ask if they have any real estate you are not going to get anywhere. You need to go to the state or community bank and if they have any real estate they will be happy to talk to you about helping you purchase it.
- Builders are a good way to find leads especially in this market. A lot of builders are going out of business. Rather than going bankrupt they will sell you the house at what they owe on it. That is a good deal. Normally builders don't give you a good deal, you'll get $20,000 to $30,000 off their price but that's not a good deal, you need to know what a good deal is. From time to time you can find a wholesaler that has a house you can purchase from them but you need to be careful and go look at the house.
- Probate Real Estate is pretty straight forward.
    - Get Your Leads (new estates)
    - Send Out Your Marketing
    - Evaluate the Property
    - Negotiate the Deal
    - Re-sell or Rent for Profit

Types of Auctions

- Court House Steps
- HUD & VA
- Commercial Auctions
- Bank
- eBay

There are a lot of different types of auctions. For each one there is a different set of circumstances. I won't go over all the sets of circumstances but I'll give you a general overview that works with all the auctions.

Courthouse Step Auctions: They are very confusing and what usually happens is that whoever owns the first lien on the property is going to go and bid the first lien amount so they're sure to get their pay back or the property. If someone bids another dollar the first lien gets paid back and the other dollar would go back to the owner or the first lien holder if they owe them back payments.

The Courthouse Step Auction is not really a great auction. I would suggest you go see one just to get it out of your system unless you're going to make a living that way. I wouldn't try to find many deals at the courthouse steps.

Government Auctions: On the opposite end of the spectrum would be the Government auctions such as HUD, VA and IRS. There are a number of others and you can find them on the government website. My favorite is HUD. It is the best run auction and it has the most available properties. It's very easy to do and I'm going to discuss that a little bit more.

Commercial Auctions: I used to think you couldn't get a good deal at a Commercial auction. One day they were having one close to my home and it was raining and I thought since it was close I would go. I drove over and they started the auction and it was drizzling rain and there were only four or five people there.

Usually at a commercial auction there will be twenty five to thirty people but that day there weren't. I had done my research on the house since I was going to the auction and it was worth about $200,000 and it was all fixed up so there wasn't much to do to it. If I was going to bid I thought I would probably bid up to$152,000 on it. The bidding started at about $60,000 and went to $108,000. It sold for $108,000 for a $200,000 house.

That day I learned a lesson—I should have had my ducks in a row. I should have had my money and had my registration and I could have bid $109,000 and gotten a very nice house. I wonder why that happened. People who are looking for a house are not as enthused about going out and making those bids as a Real Estate Investor. All the people there were Real Estate Investors.

What you should look for in auctions are the houses that fall through the cracks. That is when you really get the good deals and the only way to do that is to attend a lot of them—even when it's raining. The one that happens most around here is Hudson and Marshall just make a note of that.

If you go to Google or Yahoo and type in "homes for sale at auction" or "single family homes for auction" or "auctions homes" then it doesn't take very long to find because there are only two or three major companies.

Drive around in your territory and you will see bright signs out there with red letters saying "this home for auction on such and such date". You can find out who the local auction companies are in your area. Most people don't know it but banks like to auction their homes and what they will do is find a large Real Estate Company like Keller Williams and there will be one agent that takes all the banks' property in a large area and put them up for auction.

eBay Auctions: eBay is probably the largest seller of real estate in the nation right now. If you haven't been to eBay Real Estate you will really be surprised. You can bid on the down payment or on the property. You can pick out how many miles from you and I suggest you go look at the real estate on eBay and a lot of the ads have pictures and videos. Some of them will give you a tour of the house while they're talking. That's a good way to sell a house.

"You can get started bidding immediately"

Advantages

- **Easy**
- **You can start bidding immediately**
- **Eliminates lengthy negotiations**
- **Allows for quick closings – no haggling**
- **Quality properties at wholesale prices**

The advantages of an auction are:

They are easy, if you want to get into the foreclosure market that is hard, short sales are hard.

Auctions are easy because the auction companies want you to bid—so they're going to give you all the information you need to get you started quickly.

You can get started bidding immediately—tomorrow you can make bids on these auctions or even today. In fact the HUD Auctions end on Sunday night. They also have day auctions.

You don't have long negotiations—the closings are quick and there is no hassle—just cut and dry. You can purchase quality properties at wholesale prices.

It's so simple I can call up my realtor after I've done all the paperwork to figure out how much it is on Sunday evening and I'll tell him which house and the address and how much I want to bid. The next day he calls and tells me whether I got it or not.

If I don't get it Monday sometimes he'll call me on Thursday and say the first bidder didn't get it so now I do get it—so sometimes you get two chances. That's how easy it is.

First Things First

- **Arrange Financing**
- **Determine Values**
  - **Inspect each property**
  - **Get together information**
  - **Prepare offers**
    - **Use Turbo Bidder**
- **Prepare Offer Files**

The first thing you need to do is get the money. If you don't have the money you're wasting everyone's time with auctions (although it's a good learning exercise) you've got to arrange your financing. You need to determine the price range of the homes you want to bid on—what they're worth so you go and inspect the property.

They have a schedule so you can inspect them or set up an appointment with your realtor so you can go see them. You need to get the information together

so you know you're placing a good bid and then prepare your offer. There are five things that you need to prepare an offer. I'll discuss that later.

You have probably used Turbo Tax. You just fill in the answers to all the questions and when you get to the end it will tell you how much tax you owe or how much you are getting back. I realized Real Estate Investors needed something like this so I invented ***Turbo Bidder*** and it has all the pertinent questions and after you answer them it tells you what to bid.

Look what real estate guru and best-selling author Bill Barnett has to say about the Turbo Bidder.

"Dennis, as a long time investor I wish I had had Turbo Bidder 11 years ago. It would have saved me a lot of time and put a lot more money in my pocket. Turbo-Bidder is easy to use and gives you the numbers you need to make good offers in just minutes. I use it and highly recommend it to experienced investors as well as beginners. Turbo-charge your investing with Turbo Bidder!"

G. William Barnett II, Fort Worth, TX – National Best Selling Author of "Are You DUMB Enough to be RICH?"

Turbo Bidder is in three stages and in the second stage it gives you all five things needed to prepare an offer in one place. You fill in the address and all five things are there that you now have to look for without Turbo Bidder. If you don't have one you need to get one just because of what it's going to be for you in the future. You prepare your file so you can go back and review how you came up with the money in case you get that bid. You can go back and find out what you were thinking because you might have bid on 15 properties and you can't possibly remember any single one of them.

Before the Auction

- **Questions answered before auction**
- **Request and review the contract**
- **Have your attorney review the contract**
- **Ask how much & obtain certified funds**
- **Determine what is required to bid**
- **Arrange for earnest money**

Before the auction you need to contact the people handling the auction. Most Commercial Auctions give you a catalogue. The catalogue has frequently asked questions and I'm going to cover some of those—but it's going to tell you how much money to bring, certified funds, how to register, how the auction works, how many days you'll have—it's just a beautiful little catalogue and at the same time they'll tell you about things that you can bid on the internet right now—you don't even have to go to the auction.

Request and review the contract and have your Attorney review the contract before you go to the auction so you know what you're getting into because sometimes if you bid $100,000 that's not what you have to pay. You have to pay the auction another 3%—so you're actually paying the auction $103,000.

At the Auction

- **Register**
  - **With a valid ID**
  - **And proof of certified funds**
- **Acquire a Bidder Card**
- **Listen to the Auctioneer**
- **Bid at the appropriate time**
- **The highest bidder will**
  - **Move to the contract table**
  - **Present a check for earnest money**
  - **And complete the purchase agreement**

You've got to know up front how the auction works. That is all answered in the catalogue. You need to know the amount of certified funds you need to bring with you and determine what you need to do in order to bid. You bring your certified funds, go to the table, sign up, have your driver's license and possibly another form of ID—it's simple and they give you a sign to hold up for bidding. You need to arrange for earnest money because if you win the bid they may want 5% within 24 hours.

It's different at every place but the catalogue will explain it. If you brought $2,500 and bought the home for $100,000 you are going to have to come up with another $2,500 within 24 hours in order to have your deposit.

After you register and get the bidder's card just wait for the auctioneer. He will announce when the auction will start and tell you to go look at the house. After looking at the house go back and wait for the countdown for the auction to start. Once the bidding starts it goes very fast and it'll be over before you know it. If you don't know what you're going to bid or if you get excited you could bid too much.

You need to know your highest bidding number and start way below that number and work up and when it gets to your number don't jump on it immediately, wait a few seconds and say your number. If someone out-bids you just go home or wait for the next auction. Don't ever go past what you have figured is your very best bid.

When you bid at the appropriate time and you aren't sure if the auctioneer heard you just bid again because he won't let you bid against yourself. If you're the highest bidder you win and move to the contract table, then go to another table and present your earnest money check and complete the Purchase Agreement. They will tell you when the closing and so forth is. That is on a Commercial Auction and that is pretty much the most complicated one.

The other auctions are much easier. You just type the information into the internet or just call your realtor. You develop a relationship with your realtor and they can feed you good things that fit your criteria so you know what to bid on. If you want to go to the HUD site it is www.HUD.org and then go to Texas and the city or county you're interested in. There will be pictures of all the HUD auctions coming up and whether it's daily or weekly.

After the Auction

Get financing

Set up rehab

Attend Closing

After the auction you'll want to get with your Mortgage Company or Bank and make sure you've got the money available because you can't be late. You can't close late because there's no extension. If you don't close you lose your down payment.

In the period between winning the bid and the closing get your rehab people familiar with the location of the house and what they're going to need for the house so as soon as you close they can get to work. That day or the next day at the latest have the power and water turned on so they can get started rehabbing. You don't ever want the house to sit because that costs you money.

FAQ

- Is a Real Estate Broker needed in order to buy at the auction?
  - Yes—for HUD, VA and Banks
  - No—for commercial, eBay and Courthouse Steps
- What is the asking price for the properties?
  - In open bidding there is no beginning asking price
  - A starting bid comes from qualified bidders
- Is the deposit refundable?
  - No
  - If a buyer does not close before the closing date—the deposit may be forfeited
- When and where are closings held?
  - Usually 30-40 days after an auction
  - The closing title Company will be provided to you
- Will I owe back taxes?
  - No—the seller
    - Will pay taxes up until the closing
    - Will provide a title policy

Here are some frequently asked questions:

1. Do you need a Real Estate Broker to buy at an auction? You don't at a Commercial Auction or eBay Auction but you do at a VA, HUD and IRS Auction.

2. What is the asking price? The auctions will usually put a number up. For example HUD will give a price but you can bid below or over that price. It

is just a guideline that's somewhere in the vicinity of what the home is worth. The auction price starts with the first bidder and goes up from there and the high bidder wins on an absolute auction. If is not an absolute they will explain that to you.

3. **Is the deposit refundable?** No, that's why you have a deposit so you're serious about it. If you don't close on the closing date you'll forfeit your deposit.

4. **When and where will the closing be held?** It will be held at a Title Company near the house and they'll tell you the date and where the Title Company is and what time you should be there and it will probably happen 30 to 40 days after the auction.

5. **Will I owe back taxes?** If the house has been seized because of back taxes being owed on it you won't owe the back taxes. The taxes will be paid by the seller. All you'll owe is just what you agreed to pay plus whatever you have to pay the Auction Company. With HUD and VA there is no extra cost, in fact, they will pay part of your closing costs if you request it so it's actually less in many cases. EBay has its own set of rules and they're all different. You have to click on the individual homes and read the guidelines because each of the people auctioning the homes off can set up their auction any way they want to. You can be bidding on the down payment or on a monthly payment, on the purchase of the house, on a lease, they can set it up any way they want to so you have to be careful.

Actually I sold a house at auction on eBay and the guy bought it for $20,000. It was a $200,000 house and he was bidding on the down

payment so when he won the bid and we told him he still owed $180,000 he said he wasn't going to pay that. He didn't read before he bid.

For more information, excellent educational materials and articles go to www.dennisjhenson.com.

Subject To

Subject To means buying property "subject to" the existing mortgage. Most people have a home, if you don't your parents probably had a home with a mortgage on it and they were making mortgage payments. If they sold the house and the mortgage stayed in place the person that bought it would be buying it "subject to" that mortgage.

"Subject To" Means

- **Subject to the existing mortgage**
- **Carleton Sheets… *"To purchase property subject to a mortgage on the property"***
  The purchaser assumes no liability for repayment of the mortgage debt. The only money at risk is your equity.

The only money the purchaser has at risk is their own equity so if they paid something to the seller that's what they have at risk or maybe if it's worth more they have some equity there too. People fall in love with that equity real fast.

First of all this is not a new technique. You hear about it and think you need to study about it but it has been around for years. Let's look at it in relation to assuming a loan. If you do a "subject to" the old lender note remains in place, if you assume the loan you take over the note and you're responsible for it. The people that have the note are still responsible if it's foreclosed on. You won't have any liability for the underlying loan. If it's foreclosed on it doesn't hurt you.

Benefits

- **No Credit Check**
    - **No Loan Apps**
    - **No Waiting**
    - **No Stress**
- **Saves Thousands o Closing Costs**
- **Little or No Cash Needed**
- **Possible Better Interest Rates**
- **Possible Cash at Closing**
- **Effective for Any Type Property**
- **Safe and Easy to Set Up**
- **Large Profits Possible**
- **Simple Paper Work**

You're not legally obligated for anything—you only have the moral obligation to pay. That all depends on how the contract is written because you do two things: You do the "subject to" and you have the contract and a deed. The benefits of "subject to" are no credit check, no loan apps, no waiting and no stress.

You can get an agreement today, sign it the next day and it's done and that's a lot faster than trying to go through a Mortgage Company. You can save thousands of dollars on closing costs. The average closing cost on a $100,000 house can be from $4,000 to $9,000.

By doing it this way you still have some cost but it isn't as much because you aren't paying to start a new mortgage. There's little or no cash needed. For example, if I own a house and it is worth $100,000 and I owe $80,000 on it to a bank or Mortgage Company you come to me to purchase the house "subject to" that. That loan stays in place, I still owe for it but you're going to pay for it every month because you're nice and honest so you didn't have to create a new mortgage, that mortgage stays in place.

What is a "Short Sale"

- **A Real Estate "Short Sale" happens when a sellers bank allows a property to be sold for and accepts a payment for less than the amount owed.**
- **Example**
  - **$170,000.00 Property**
  - **Bank accepts $150,000.00 as payoff**

<u>"SHORT SALE"</u>

A *"short sale"* is when someone is about to lose their house, a bank is about to take it back. You go to the bank and find out if they will sell it for less than is owed on it. There is little or no cash needed but why would you need a little bit of cash?

You're going to have some title cost because there's going to be deed preparation and a filing of the deed. The preparation of the deed and the contract and the filing is going to cost you money. You can get the seller to pay that so you can actually do this for free and you can even walk away with money.

If people want out bad enough they will pay you to take their house. You're going to have to prepare the contract and you're going to have to pay for deed preparation and you're going to have to pay for filing of the deed and the Title Company will do that.

Your interest rate may be great because if the people you're buying it from had great credit and now things have gone bad for them they may have gotten a 4 – 5% loan and you are taking over their interest rate. If they want to sell bad enough they'll tell you anything. If you have a motivated seller they're going to do anything you ask them to get away from that house. The seller needs to want to do the deal. They don't have to be super motivated but the more motivated they are the easier it is to do and that's in anything not just "subject to".

Possibly you're going to get cash at closing—they may just ask what it's going to take. I had one person in say she would pay my closing costs if I would just take the house. I asked her to do a "subject to" but the more sophisticated person won't want to do that.

"Short Sale" Overview

Not a new technique
Lots of interest = high foreclosure rate
Key is finding prospects

- **Do marketing campaign or sign up for program to find prospects**
- **Contact prospects**
- **Get a seller to agree to proceed**
- **Get a copy of last bank communication with seller**
- **Must review public records for other liens**

This is good for any type of property, multi unit property, commercial property as long as there is a mortgage involved. It's safe and easy to set up, there's a large profit potential and the paper work is very simple and very inexpensive. Those are the benefits, which was the wonderful part, now what is the other end of the spectrum?

Everyone wants to know if this is legal—in fact I have asked my attorney whom I believe is one of the best Real Estate Attorney's. It's not only legal it's done every day hundreds of times within 10 to 15 miles of you. Once you take it you've got to make the payments. Once you sign that contract you've got a moral obligation and maybe a contractual obligation.

If I was going to sell one I would tie them up and if they didn't pay I would sue them. The bank communications are a problem. Have you ever called your bank and wanted to talk to them and they ask you all kinds of personal questions?

If you have assumed someone's loan and you need to know what the payoff is. You better have a pretty good working relationship with them because they are the only ones that can get the payoff and you can't sell it without the payoff so you have got to keep those people happy and working with you. Even if they give you all the information the bank is still leery and they'll change things.

“Short Sale” Overview

- **Have seller contact bank short sale department for authorization**
- **Have the seller fill out all paper work and submit to bank**
- **Get copy of authorization to contact bank**
- **Using bank’s instructions submit offer**
- **Reserve right to do inspection**
- **Monitor and promote the project**

ESCROW

There are escrow concerns, what would the escrow concerns be? What happens if the house burns down? They get the money and you’re out in the cold. You better keep them happy or you can have them name you as co-insured but that is still a problem if it burns down because they’re going to want some money so just hope they don’t figure that out.

Taxes are a concern. If you sell the property in September who is going to get the escrow money? Is it going to be the Government, the Escrow Company or the Insurance Company? No, it’s going to be the people on the note because the bank is saving it for them not for you so you need to be really careful when you sell the property. Try to sell it in January or February or have a good relationship so they’ll give you the money back.

Concerns

- Is this legal?
- What about the "Due on Sale Clause"?
- What if I fail to make the payments?
- Bank Communications
    - How to be sure payments are credited
    - How do I get pay off information?
- Escrow concerns
    - Insurance
    - Taxes

The Due on Sale Clause scares everyone. The most common question that is asked about this particular technique is what about the "Due on Sale Clause"? It will say in the contract that if this title changes we will call it due and that scares both the buyer and seller. You need to be able to explain to the seller that the Due on Sale Clause isn't necessarily a problem.

The lender can declare the note due and has the right to foreclose. It's in all the contracts now but here is what's going to happen if they do that. The Federal Government will punish the lender because they've got a bad debt and if they foreclose they'll have a bad debt on their books.

"Due on Sale Clause"

- The most common question—"What about the "Due on Sale Clause"?
  - Scares both buyers and sellers
  - Can and does kill deals
- The lender
  - Can declare the note due
  - Has the right to foreclose
  - But—the Federal Government will punish the lender for having a "bad debt"

If a bank has a $100,000 bad debt they get penalized $800,000 on what they can lend out. Banks make money by lending. The Government limits them as to how much they can lend depending on how big the bank is and what their assets are etc. Say the bank can only lend $10,000,000, if they have got ten bad debts of $100,000 that is $1,000,000 that means $800,000 can't be lent out. That reduces their lending limit by quite a bit, so they don't want that, that's why they don't want to know. As long as it's being paid they don't care.

You can either pay the mortgage or lose the property by foreclosure. If you bought it and it has a big equity in it you surely don't want to lose it so you want to make sure it gets paid. One of the disclosures that an FHA insured loan requires the lender is they need to contact HUD and ask for permission to foreclose on a mortgage that's being transferred without payoff for the loan.

In other words if a bank is going to foreclose on the loan they have to get permission from HUD to do it. HUD has never given permission. If they're going to foreclose because of the "subject to" they've got to tell HUD this is why they're doing it and HUD has to say it's alright. To date HUD has not reported allowing any of these foreclosures to happen.

Five Ways to Profit

- **Get paid to buy from seller**
- **Non-refundable option from Tenant Buyer**
- **Spread between the mortgage and lease payment**
- **Backend profit—The difference in what you paid and the sale price**
- **Tax benefits**
    - **Depreciation**
    - **Interest deductions**

There are five ways to make a profit by using "subject to". The first way is to get the ***seller to pay you*** to do it. This happens sometimes. You can sell a ***non refundable option*** to a tenant buyer, someone who is going to lease option or rent to own and you get money. The ***spread is between the mortgage and the lease payment***. If the mortgage payment is $1,000 and you lease it out for $1,250 you're making $250 a month.

Bank end profit, the difference between what you paid for the property (the "subject to), what if any money you paid them, and what you actually sell the house for, you make money there.

The tax benefits: if you have worked it out properly in your agreements you get to count the deposit and the interest deductions. In any case you get to count the payments as a tax deduction.

Why Sellers Agree

- **Foreclosure**
- **Sickness**
- **Death**
- **Divorce**
- **Job change**
- **Behind on payments**
- **Old age**
- **Immediate need for cash**
- **Inheritance**
- **Had to move**
- **Don't want any hassle**
- **Live in another part of the country**
- **Tired of dealing with renters**
- **Lots of other reasons**

Why are these sellers so anxious to sell their houses? Sometimes when there's divorce and bitter feelings they don't even want to see the house anymore.

When I first started learning and studying I would read this and I never thought it would happen but it has many times. Once people know you're in the business they'll call you for help and sometimes the numbers add up and sometimes they don't. Most of the time they don't, most of the time it's a $100,000 house and they owe $91,000 on it. They think you're going to want it because there's $9,000 there but if anything it will be a loss if you take it.

Of course, foreclosure, sickness, death, divorce, job change, behind on payments, old age, they need cash because they've found this wonderful

business that's going to make them $1,000,000 and they just need some money—inheritance, had to move, just don't want to mess with the house, they may live in another part of the country or even another country, they're tired of dealing with renters, and there are a lot of other reasons.

Once you purchase the house you're going to need money. You're going to need monthly payments to make those payments, where are you going to get it? Get someone in the house as fast as you can.

There are three ways to do that. One way is "*lease option"*. Isn't lease option legal in Texas? It is perfectly legal for the first six months then the buyers have to go on title. You can "*EZ rent to own"* and have them sign a contract to buy, that is perfectly legal and you can do that for as long as you want to. The third way is to just "*rent"* it to them.

Now that you're convinced this is the way to go, how do you do it? Just call the Title Company and tell them you need a contract—tell them the terms and get a special warranty deed. The special warranty deed will transfer the title into your name, your company's name or your partnership's name. It is a special warranty deed and you need to have those things covered or you might lose the house. You need to get the seller to sign the contract.

In summary, this is a great way to control property. It's safe and it's legal and when I started preparing this I wasn't expecting to say that it's safe and legal. There's no credit check, no loan applications and no waiting. You can find it on Monday and Wednesday it can be your house. What happens is you'll find them on Friday before the Tuesday sale so you better have all your ducks in a row because you're only going to have Saturday, Sunday and Monday to do it.

This is important: you can save thousands of dollars on closing costs, not hundreds but thousands, that's real important. You do ten of those and you save $50,000 or $60,000, which is a lot of money. There is little or no cash needed, excellent profit potential and it's simple, quick and easy to set up.

STUDY, STUDY, STUDY

"Of all the things I could teach you the most important thing is this: continuing education, listen to CDs when you get in your car, when you're driving around just make that part of your business. Read books every day, go to the internet and read the articles, go to meetings."

If you want to get wealthy doing this study, study, study. The more you study the more money you'll make, and you need to network with people that have money. If you have friends with money it can make things go much smoother for you.

For more information, excellent educational materials and articles go to www.dennisjhenson.com.

EZ Rent to Own Vs. Lease Option

I'm going to discuss ways to buy a property from someone. I'm not a Realtor, Attorney or a CPA so anything I tell you isn't legal advice. It's just experience, it's what I do, I'm a full time Real Estate Investor and I'm telling you about my experiences. If someone has a mortgage on their property and they want to sell it to you, you can be creative and come up with what is called a "wrap around", a "lease option" or a "rent to own". I'll discuss each one of these.

If someone has a property they want to sell, they're probably about to lose it to foreclosure or are just desperate to get out. Sometimes people just want to get out but they have a mortgage and can't walk away. They want someone else to take over ownership of the house so they don't have to worry about it anymore.

Wrap Around Mortgage

- **Existing mortgage remains in place**
- **New—bigger note that includes 1st**
- **Title transfers to buyer**
    - **But loan remains in seller's name**

One way to do that is with a ***wrap around mortgage***. It leaves the existing mortgage in place and you create a new and bigger note and the title transfers but the loan remains in the name of the seller. You are buying the property so

if they have a lien of $50,000 and you are buying it for $60,000 and you don't want to pay them any cash money you sign a note for $60,000.

Part of that note will go to pay their first mortgage and the rest goes to pay them. You've got a transfer of title which costs some money but not very much. This is really confusing and it's hard to explain to buyers. I have been doing this for a long time and I understand it and it's still confusing.

The seller still has the liability. Whoever sells it is losing the ownership but they still have the responsibility and that makes it hard to sell. There are a lot of "wraps" that happen but you are better off using something else in my opinion. There is already a mortgage in place—the second is just a new agreement.

Say your mortgage payment is $500 and I am going to pay you $600 and out of that you agree to pay the $500 payment—then you get to keep the other $100 for your part. If I am buying with a "wrap"—you may have a house that is worth $100,000 and you owe $50,000 on it but I have agreed to buy it from you for $75,000. I get the property and the deed but you still owe the $50,000 and I'm going to pay you $750 a month. You will pay the Mortgage Company the $500 and you keep $250.

This is not the best way to buy but as a Real Estate Investor you need to know how it works because sometimes you'll run into one of these that you have to deal with and you need to understand how it works.

Now I'm going to discuss ***Lease Option*** which does basically the same thing but in a different way. The person who's purchasing the house usually puts down a non refundable deposit which can be anywhere from $1 to any amount. Generally it's about $3,000 to $10,000. If someone puts down $4,000 or $5,000 as an option to purchase the house they are pretty serious about buying the house so you feel like you've got a pretty good deal in selling to them.

Lease Option

- Non-refundable deposit
- No title transfer
- Locked in price for set period of time
- Portion of payment may be credited
- Agreements
  - Option to Purchase Agreement
  - Lease Agreement linked
- Texas Law could cause problems

With a Lease Option there is no title transfer. This is where the Texas law comes into place with a title transfer. You lock in a price; let's say you are going to sell someone a $100,000 house. A year from now that house may be worth $105,000 to $120,000 so that's a real benefit because it locks it into the market value of today.

A portion of the payment may be credited toward the purchase of the house so every time you make a lease payment—if it's $1,000 you may give them $100 toward the purchase of the house—so at the end of the year they have $1,200 more toward the purchase that you can put toward closing and the Mortgage Company will recognize that. If you make it $200 they may not recognize it.

You have to keep the amount that's to be credited reasonable because the Mortgage Companies want to see real money at closing. The $100 per month is safe—they will accept $1,200 or $1,300 but not $10,000.

You have an agreement, an option to purchase and a lease agreement which are linked together and each agreement mentions the other one. You have the Option Agreement which means I'm agreeing to purchase this house for "X" amount of money by a certain date.

Have you ever traded in stock options? Let's say you buy an option for Intel. If Intel is at $30 you may want to buy a $30 option which means six months from now you can still buy it for $30. Six months from now Intel may be worth $20 or it may be worth $60, you don't know but if it's worth $60 and you have an option to buy it for $30 that's a good deal.

It's the same way when you option to buy a house. You put down some money and say that before this date you have the right to purchase this property for this amount of money.

The Lease Agreement is like a Rental Agreement except it's linked to the option so that once you start paying the lease payments you feel like you're an owner because you actually are buying it and part of the payment may be credited.

Here is where the Texas law comes in, if you do this, title has to transfer in six months. If it doesn't transfer you can be fined $200,000 a day, now again I'm not an Attorney. You can make the option for as long as you want to but if you pay money for the option and you're paying a lease payment that title has to transfer in six months. If it doesn't whoever is doing the selling can get in trouble. The reason the title doesn't transfer doesn't matter, you just need to be careful. I'm mentioning this because Texas has a law that makes it very difficult.

If you go next door to Oklahoma you can lease option all day and most people do but what I suggest you do is ***"rent to own".*** This takes away your legal problems. First of all you use a normal rental agreement for a short term of anywhere from 3 to 36 months.

EZ Rent-to-Own

- **Normal – Rental Agreement**
    - **For a short term 3-36 months**
- **Refundable deposit goes toward purchase**
- **No title transfer**
- **Normal – Purchase Agreement**
    - **Closing in 3-36 months**
- **A portion of rent may be credited**
- **Do not link two agreements**
- **Win-Win**

If you rent someone something for 3 to 4 years you need to make sure that you have the right to increase the rent at the end of each year because you'll get behind if you don't. You have a refundable deposit so that when they move out and they leave the house in the same condition that you gave it to them in they get their deposit back.

A portion of all the deposit goes toward the purchase of the property. If you're selling a $100,000 house and the buyer puts $5,000 down as a deposit—when it comes time to purchase the house how much are they going to owe then? They will owe $95,000 because all the deposit goes toward the purchase unless

they move out. A portion of the rent may be credited, if you want to give them $100 a month.

You don't link the two agreements together. You have two agreements, a Purchase Contract and a Rental Agreement. They're two different contracts and they don't mention each other. You can tell them it's "rent to own" and have them sign a Rental Agreement and then you have them sign a contract to purchase the property. For example if you were going to buy a house you would sign an agreement to buy the house, the closing date could be six months, twelve months or two years.

It's just like a Purchase Contract. It does exactly the same thing as a Lease Option but you have a lot happier customer because they know that the deposit money is theirs. They're getting $100 and you can also set it up so it helps them pay you on time because they don't get the $100 unless they pay on time and they also feel like they're owners.

Benefits to Buyers

- **No credit check**
- **Low move-in costs**
- **Affordable rent payments**
- **All deposit credited toward purchase**
- **$100 of payment credited toward purchase**
- **Legal credit repair at no additional cost**
- **Seller assistance at closing if needed**
- **Solves problems getting mortgage**

This is a win-win situation for both of you. They don't have to come up with any new contracts. They use the existing contract so the Title Company is going to like you. Let's discuss the benefits for the buyer.

I took this from my website although I don't know if this first one is that great of an idea so you can do it if you want. You don't have to check their credit, you can make that a benefit or not.

Move in costs are low, you can have them pay a $500 deposit to start with and then charge them a monthly payment toward the deposit which wouldn't be part of their rent. For example, you could add it in the middle of the month. If their rent is $1,000 they pay $500 for a deposit, $1,000 to move in and in the middle of each month maybe have them pay another $200 toward their deposit so that at the end of the year they have paid another $2,400 plus the $500 so now they have paid $2,900.

If you have given them $100 a month you add their $1,200 to the $2,900 and you now have $4,100. Most people don't have $4,100 to go the closing and the Mortgage Company wants to see money. They want to see money out of their pocket and now they have $4,100 and twelve months of paying on time.

> *"I provide credit repair to my "EZ Rent to Own" customers so that in the first twelve months I'm repairing their credit."*

I have been doing this for a while and have never run into a problem. All the deposits are credited toward the purchase and $100 of the payment is credited toward the purchase.

I studied how to do credit repair so I provide credit repair to my "EZ rent to own" customers so that in the first twelve months I'm repairing their credit. I

have some other companies that help me, for example if you go to my website and go the training materials you will see ***Lexington Law*** which is a Credit Repair Company.

It costs $100 to set it up and $39 a month which I pay. They sign up and I give them $100 back and at the end of the month I give them $39 and we do this for three months. What happens during the three months is Lexington Law challenges everything on their Credit Report. About 40% of it just comes off. Their Credit Report just goes through the ceiling.

Sellers' assistance if needed at closing: What that means is if they have got really bad credit and you bought this house at a really good price you may want to pay their closing costs or you may want to finance a portion of their down payment to help them get over the hump and buy the house. It solves three problems for the buyers.

One is they need cash at closing, now they have their security deposit and they have your credits that you have given them. Second is they need proof of on time payments. You've made them pay on time and you've made them pay with a check so they've got twelve months of on time payments to show and their low credit score has been raised because you've been working on their credit the whole time so it isn't a passive thing it's active. You're always trying to help them and they appreciate your help.

Benefits to Seller

- **Stops hang-ups**
- **Rent homes much faster**
- **Great cash flow**
- **Renter feels like owner**
- **Get better price for home**
- **Avoids legal problems**
- **Deposits can cover fix-up costs**
- **Makes it easier to get loans for buyers**

Now what does this do for you? I want to tell you what kind of phone calls I used to get before I started using the "EZ rent to own". I would get calls on my ads and they would ask what the rent was and what it would take to get in the house. I would tell them for example $1,300 rent and $1,300 security deposit which would be $2,600 to move in. The next thing I would hear is "thank you and goodbye". I got that over and over so I thought there had to be a better way to do it.

A lot of things happened at once, I bought Bill Barnett's book, I started advertising in tabloids, I got an 800 number, I got a website but the main thing I did was change to ***"EZ rent to own".*** After that when someone asked what it would take to move in a house I would tell them $500 to reserve the house for two weeks and then $1,300 to move in.

Now there will be a middle of the month payment. I'll let them pay the rest of their deposit over the period of a year. The reasons they were hanging up is because they didn't have the $1,300 and they couldn't get it but over the period of a year you can save up if you force them to pay it in the middle of the month.

Most people get two paychecks a month so by dividing it into two payments they can pay their rent with the first one and their deposit with the second one, then you both win. This way you can rent houses much faster, your cash flow is much better, the renter feels like an owner and you can get the full price for the house.

"The smartest thing I did was to start using "EZ Rent to Own"

If you've sold many houses you know that you rarely get full price for a house. About half the houses I sell I get full price because I do it like this. You avoid legal problems with this method.

If they move out in six months you've got a pretty good deposit by then if they're paying you $250 in the middle of the month which is $1,500 plus $500 down. If at the end of six months they move out they breach the contract and

they don't get any of their money back unless you both agree that it is okay. If they just leave they're not going to ask for their security deposit back anyway. If they have messed anything up it's in the contract that they have to give the house back in the same condition you gave it to them in so you use their money to fix it back up.

Most Rental Agreements are twelve months but you can make them for any length of time you want. If they haven't bought the house at the end of the Rental Agreement you just renew the agreement. They can pay the whole deposit off if they want.

I charge a $3,500 security deposit and sometimes they pay it off when they get their tax refund so they don't have the middle of the month payment. A lot of people just give me two checks, one to deposit at the first of the month and one for the middle of the month.

When I buy a house I rent it just like that. When you look at my website you don't see any houses that are available. Isn't that a wonderful position to be in? This really makes it easy for the buyer to get a loan and the buyer really appreciates that at the end of the year.

I have testimonials on my VMI Properties website where people say they never thought they could buy a house until they met me and I made it work.

How Do I Set it Up?

- **Have**
  - **A Real Estate Attorney**
  - **A Title Company**
    - **Prepare**
      - **A Rental Contract**
      - **A Real Estate Purchase Contract**
- **Have Seller Sign**

So how do you set this up? You prepare a simple Rental Agreement and a Purchase Contract. I use ***John Schaub's Rental Agreements***, he's out of Florida and he has an excellent Rental Agreement that pretty much covers everything that could happen and I would suggest that you check him out. Some of the things that he addresses are abandonment, animals and emergency contacts.

> *" "EZ Rent to Own" is a great way to control property"*

Summary

- **In Review**
  - **Three ways to structure deals**
  - **A great way to control property**
  - **Safe and legal**
  - **Save thousands on holding costs**
  - **Excellent profit potential**
  - **Simple quick and easy to set up**

To summarize, there are three ways to structure a deal to keep the original Mortgage in place and you take the title or you give it depending on whether you're buying or selling. This a great way to control property, the "EZ Rent to own" is safe and legal, you can save thousands and thousands of dollars in holding costs, it's an excellent profit potential, it's simple, quick and easy to set up. This is a great way to buy houses.

If someone wants to sell a house, here's what happens, people will move thinking the house will sell because their realtor told them it would. About four months later when it hasn't sold and they've made four mortgage payments they're ready to talk.

You go to them and ask them if you can rent their house on a rent to own plan and then buy it from them. They'll want to know how it works and you find out what their mortgage payments are. If they're $500 you could tell them you would give them $550 and take the house and take good care of it because

you're going to buy it. They may think that's better than them making the mortgage payment, and they'll get $50 and you'll take care of the house.

The longer the house has been sitting there the better it sounds. You may be able to talk them into selling it to you and locking in a really low price. Once they lease the house to you and sign the contract to sell it to you—you've got them, it's your house. You've just got to go buy it.

As the buyer you want them to give as much credit as possible. The reason is the Mortgage Company may not count it but it still comes off the purchase price. Say the mortgage payment is $1,000 and you're paying them $1,100 but you ask them to give you $400 a month credit, now this happens all the time. At the end of the year you have got $4,800 off the price.

You can go out and rent the house, just make it part of your agreement that you can sublease it. You can then sell it on a rent to own to someone else and you make $200 or $300 on that and at the end of the year you buy it and the other people have made all your payments. If you're renting it for $1,000 and you rent it to someone else for $1,200 and you're getting $400 credit you're netting $600 every month and someone else is making all the payments.

I had someone that wanted a house that was for sale and it had been for a long time and she wanted me to buy it for her. I went to the owner and asked about the payment and how much he owed. I agreed to lease it from him with the option to purchase and then I immediately leased it to her with an option to purchase it. I was making $400 to $500 a month and I didn't have to come up with any money.

Eventually, if someone is leasing you a house to purchase and you do that for a long time they don't want the house back, they don't want the problems, they like it because you have it and you can go back and ask to purchase it for a lower price. I agreed to buy that house for $92,000 and I ended up buying it for $70,000. Then I sold it to her for $95,000 and I never had any out of

pocket expenses. The deposit I paid was $3,000 and she gave me $5,000 so I immediately made $2,000. She was making monthly payments and I made $100 off that for about eighteen months and I made money at every turn. I paid $70,000 and she bought it from me for $95,000. It just depends on how bad someone wants to get out.

> *"If you want to be successful read, listen to CD's and study study study"*

For more information, excellent educational material and articles go to www.dennisjhenson.com.

5 Things Needed to Put Together a Good Offer

There are a lot of good ways to find good deals. Any of them will work, in fact if you threw a dart at a dart board—wherever the dart landed you could find good deals.

There are five things that you really need to train yourself in and be skillful at and one of them is "finding good deals". It's one of the easiest, but some are pretty hard. Finding deals—as some of my students will attest to—is so easy that you can become overwhelmed. You can't do them all because there's just too much work in them. There are plenty of great deals out there and some ways to find them are:

- Getting realtors to help you
- Run ads
- Read ads
- Go to auctions

You can start bidding on properties today, before tonight, before you go to bed tonight you can bid on a property because there are auctions on the internet and eBay, but you need to know how to put together that offer so when you get it you know have something good. There are foreclosures, short sales, real

estate owned by banks (REOs), probate real estate, for sale by owners, empty homes, builders and wholesalers.

First Things First

- **Arrange Financing**
- **Determine Values**
    - **Inspect each property**
    - **Get together information**
    - **Prepare offers**
        - **Use Turbo Bidder**
- **Prepare Offer Files**

Before you do anything, before you start putting together any bids, you've got to do first things first; ***you have to arrange financing***. You must become skillful at arranging financing to be a successful real estate investor.

One of my mentees has a lot of money and he thought he was going to be able to invest and his money would last him a while but I told him he would need to find other financing—he wouldn't have a lot of money for very long because investing in real estate is a "cash intensive business". If you want to invest in real estate for a living you're going to have to have someone else's money involved—so you need to arrange that.

The next thing is determining the true value of the property. You need to inspect the property, get together the information and prepare offers and put your bid file together.

5 Things to Put Into Your Bid File

1. **MLS Sheet**
2. **Tax Appraisal Sheet**
3. **Comps or Appraisal**
4. **List of Repairs & Cost Estimate**
5. **Analyzer (Turbo Bidder) Printout**

   ***A map is also helpful**

The five things that go into your bid file are:

1. MLS Sheet (either buy the information or get it from your realtor)
2. Tax Appraisal Sheet (from internet)
3. Comps or an Appraisal—(In Texas we use square footage to determine value). In some states like Louisiana, you have to actually get an appraisal—they don't use square footage. The appraiser goes into the house and tells you what it is actually worth so it is a lot easier in Texas. Unfortunately, when you get ready to sell the house that may not be in your favor because if you just spent $50,000 fixing the house up it's still

going to be valued by the square footage. A lot of people are surprised by that.)

4. You need a list of repairs and the estimate for doing the repairs
5. You need an analyzed printout from Turbo Bidder to give to your lender, partner, bank, etc.

A map is also useful, so that is a sixth thing. When you put a package together place the map on the back of the package—that way if you have four or five deals—you can lay the packages out side by side with the maps on top and decide which one to do first, second and third, so that is a good way to put your deals together.

I will discuss each one of these but first, before you try to put together a good offer you need to know what the definition of a good offer is. I think *"a good offer is one that if someone accepts it, it will insure that you are going to receive an excellent return on your investment".* It's not hard to go buy a house right now. What you want to do is buy one that is a really good investment, that's way below it's real value—and they're out there, it's just a matter of learning how to find them.

What is a Good Offer?

- ***"A good offer is an offer that if accepted—will insure you receive a return on your investment"***

MLS Sheet

MLS = Multiple Listing Service

- **Picture**
- **Address, Subdivision, Block and Lot**
- **Year Built**
- **Square Footage of Living Area**
- **Current & Original Asking Price**
- **Mapsco Page and Grid**
- **Number of Bedrooms, Bathrooms and Garage Spaces**
- **Lot Size**
- **Number of Stories**
- **Pool etc.**
- **Days on Market**

MLS Sheet:

You need an MLS Sheet because it gives a picture, address, subdivision, block and lot, year built and square footage of the living area, the current and asking price, Mapsco page and grid, number of bedrooms, bathrooms, garage spaces, lot size, how many stories, pool or other amenities and how long it has been on the market.

You may have to ask your realtor to provide you with one that tells you how many days it has been on the market but just for a start, just initially, you need to look at that MLS Sheet to get a picture of whether it meets the criteria. What is it you want to buy? This will help you eliminate a lot of houses because if

you don't want to buy houses that were built before 1970 you can find that on the MLS Sheet, but you need to have this in your packet.

Tax Appraisal

- **Tax Appraisal Value**
- **Owner's Name**
- **Owner's Address**
- **Deed Date**
- **Number of Prior Owners**

Tax Appraisal:

The next thing is a tax appraisal. You can get this off any government website. The tax appraisal will tell you some things the MLS sheet won't tell you. It's going to tell you the tax appraised value, the owners name and address, the deed date and how many prior owners there are. If the house is three years old and it has had six prior owners, you might want to do some investigation into what's going on with the house.

You also want to know the tax appraised value, not because it has anything to do with the true value, that's a myth. But, if the value is $150,000 and the tax value is $115,000 that should throw up a red flag because when you get ready to sell that $150,000 house, the buyers are going to look at the tax value and they're going to say "the county says it is worth $115,000".

You use that to figure into the equation, "well maybe I shouldn't think it's going to sell for $150,000 because the lower tax value is going to hurt my chances to

sell." That doesn't mean it won't sell for $150,000 but it means you need to take that into account when you're putting together your bid.

Comps or Appraisal

- **It is critical that you know the ARV**
  - **ARV = After Repaired Value**
  - **Per Square Foot**
- **Comps tell you**
  - **What other similar homes have sold for**
    - **Over a short period of time**
    - **Similar Age**
    - **Similar BBG**
    - **Similar Sq Ft**

"Now listen, please wake up if you're asleep". If you're going to bid on a house, it's critical that you know what it's really worth. If you don't, you're going to lose your shirt; maybe not on one, maybe you'll do three, but you're going to wish you had paid attention because you've got to know what the house is worth after it is fixed up, that is the ARV (after repaired value).

What is it worth per square foot? The comps will tell you that. Now, where do you get the comps? You can buy that information but it's very expensive. The realtors have already purchased it because they need it in their business so you make friends with a realtor and they will look up the comps for you.

What you need to do is find a realtor that will get you those comps back immediately because if you ask them for the comps today and they get it to you tomorrow and it is a good deal it will be gone. You can't wait that long.

Some people say to use Zillow but that's about like using the tax value. Zillow is just a guess. It is ok, it will give you an idea but you need the comp.

What is the comp? It's the homes of similar size and age that have sold over a short period of time, maybe the last three months. The shorter that period of time the better it is.

If the range is within a mile it's best but sometimes that can't be done. If there aren't any that have sold they have to go out further and they have to go back further and then they have to start using square footage that's close but you still have to have the comps even if it's not exact. Have I emphasized that strongly enough? You would be surprised at what people do, what they pay for houses—and they think they're investors. Somebody else was the investor—not them.

List of Repairs & Cost Estimates

- **Paint**
- **Carpet**
- **Landscaping**
- **HVAC**
- **Appliances**
- **Doors**
- **Windows**

You need a list of the repairs and cost estimates. Does it need paint, carpet, and make a note of this—they almost always do. If you buy a house that was built within the last couple of years it might not need carpet or paint but chances are it does if you want to sell it. If you think you can just get by with spotting the carpet you're probably not going to sell the house. That's a hard lesson to learn. Just go ahead and put the paint and carpet in your cost estimate.

The best way to bring the value up is getting the landscaping done. Make the front of the house look beautiful— with green grass, flowers, trimmed hedges— replace the dead ones and the house will look beautiful. I had a house a couple of years ago that wouldn't sell and I realized that landscaping was the problem. We did some painting, put some flowers and mulch in front and it sold the next week, so that's very important.

Always check out the air conditioner. I bought a house one time and decided to check out the air conditioner and it wasn't even there, there was just a concrete slab. That's $3,500 for an inexpensive one so it's important to check that out.

Check appliances, doors and windows. Most programs that help you analyze this give you a check list to go through so you can see what's missing.

One of those programs is Turbo Bidder which I created. The Turbo Bidder is like Turbo Tax. Turbo Tax asks you questions and when you get to the end it tells you how much you get back or how much tax you owe and that seemed so easy.

I thought it would be great to have a program that you could feed all the pertinent property information into and at the end it would tell you what the offer should be. Turbo Bidder comes in three stages. The first stage is going

to figure what you want. The second stage is interactive. It has maps and Zillow so when you enter your information in it automatically gives you the things you're going to be looking for, the County Tax Appraisal, etc.

Analyzer (Turbo Bidder) Printout

- **Gather all pertinent information**
- **Feed all the information into analyzer**
- **Review and revise results**
- **Upload pictures**
- **Print out offer sheet and repair lists**
- **Put together bid file**
- **Place offer**

Then the top level of Turbo Bidder will have the actual comps on it and it will even have a Home Depot Catalogue so that if you want to know what a door costs, type in "door" and it lets you pick the door you want and it will put the price in.

You take your pertinent information and feed it into the analyzer, you review the results, put in a picture, print out the offer sheet and repair list which is all there and then you give it to your bank or to your investor. It tells you what to offer if you're doing a HUD bid, VA bid or an auction.

You know exactly what your top offer can be and don't go over that. In most cases you would start lower, especially if you're negotiating with a home owner, you don't want to give them your top bid immediately but you need to know what that is so you can stop when you get there.

Constructing Offers

- **Constructing good offers?**
  - **Simple offers**
    - **Auctions**
    - **Bank REO**
  - **Compound offers**
    - **To individuals**
      - **Cash**
      - **Cash and terms**
      - **Just terms**
  - **Written or verbal**
    - **Carleton Sheets says – *"A verbal offer isn't worth the paper it isn't written on".***

When you're constructing offers, you do it different ways for different people. If you're constructing an offer for an auction (HUD, VA, Bank or eBay), you only need one offer number. You place that bid and you either get it or you don't.

If you're dealing with an individual you always want to put together not one but three offers. The reason you do three is:

- If you offer cash, you're going to pay them a whole lot less.
- If you offer them terms, so you don't pay anything, it's no money out of your pocket, you get the house and they get terms, you're going to pay a lot more because you both win.
- If your offer is in between where you have to come up with some cash and they give you some terms, you go into the middle.

There are two ways of training. When you go to real estate seminars, (I have free ones and I try to do it a little bit different) but when you go to these Robert Allen seminars or one of these other gurus, they tell you "what" to do but they don't tell you "how" to do it.

There is a big difference in what to do and how to do it. What I'm doing in this book is telling you what to do—I'm not telling you how to do it. What I'm telling you is how to put together the things you need for a bid.

Making Offers

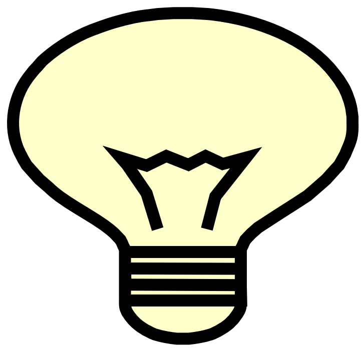
This is the key to your success!!

- **30 to 1 ratio**
- **Make lots of offers**
  - **Nothing down**
  - **Little down**
  - **Trade other assets**
  - **Use options**
  - **Be creative**
  - **Write multiple offer contracts**
  - **Use letters of intent**
- **Make offers that if accepted—will insure you receive a good profit**
  - **Offer 15% less than what you are willing to pay**
    - **This will give you room to negotiate**
    - **Your low offer might just be accepted**

Should your offer be written or verbal? Well, written because as ***Carleton Sheets says "a verbal offer isn't worth the paper it isn't written on"***. I listen to Carleton Sheets—he has all these CD's, probably 7 or 8 hours, and in that 7 or 8 hours he makes two jokes and that was one of them and I thought it was worthy of passing along to you.

My mentees will tell you that I stress making offers a lot—but making offers is how you make money. ***Making offers is the key to your success in investing in real estate***. You want to make a lot of offers and you want to make a lot of offers that you don't get.

I visited one of my students and I asked him how he was doing and he said he had just missed a bid by $600 and I said "that's great!" He wanted to know what I meant by that so I told him that you aren't supposed to get them all. You're supposed to be "just below" the lowest bid and you stay there—and one will fall through the cracks and when you get it you really get a good deal. A light went on for him and he said "oh, so that's how it works". Yes, that's how it works.



Don't just go buy a house. You want to buy one that *"fell through the cracks"* and they do all the time. You want to make thirty offers and get one—because if you make thirty offers and get five you're doing something wrong. You're going to lose your money because you're not getting the good deals.

It's easy to make offers. You can make five or ten a day and when you get one of those—you'll really have something that's worth all the time you put into it. It takes a lot of effort and time to put one of these deals together so you want to make a lot of money when you do get them. You want to make nothing down offers, little down offers and trade assets.

Make Deals

- **Make Lots of Offers**
  - **This is a Key to Success**
    - **Make offers that—if accepted—will insure you receive a good profit from your investment**
- **Negotiate With the Sellers**
  - **Price**
  - **Terms**
- **Get Signed Contracts**
  - ***"Verbal offers are not worth the paper they are not written on"*** **Carleton Sheets**

Use options, be creative, write multiple offers like we mentioned earlier. Use letters of intent, make offers that if accepted will insure you make a good profit. Start 15% lower than you're actually willing to pay when you're dealing with an individual because they're going to haggle with you and if you start at your top number they're going to take you up higher than you should go.

Time Management for the Real Estate Investor

It really doesn't matter if you are a real estate investor, mortgage broker, in the insurance business or an appraiser—time is the most valuable asset. Bill Gates is the richest person in the world right now. If Bill Gates were sitting in front of a doctor and in the next room there was a homeless person with no money and they both got the same diagnosis, that they were ill and wouldn't live, they would both ask the doctor the same question, "how long do I have", because time is the most important thing, at that point in their lives money became irrelevant.

If you had all the money in the world and you could buy another year you would gladly pay it. There are only a few ways to increase your amount of time here on earth—you only have a short amount of time. You can drive carefully, not smoke, exercise, eat healthy—these may add a few more years but just a few. With the valuable time that you have the only thing you can really do is try to make it more productive.

Someone asked Bill Gates if he had it all to do over would he do anything different and what would it be. *He said he would practice more effective "time management"*. If I had it all to do over I would be more aware of what needs to be done and when.

I want to explain how you can set up a management program so you can accomplish things you want to and go to places you want to go and do the

things you want to do. Let me tell you a story about Ivy Lee and Charles Schwab. This incident happened around the turn of the century, the 19th to 20th century, back when prices were a little bit different than they are today.

1903

Average yearly income	$703
DOW Average	$ 49
New Home (median price)	$2,200
New Car (average cost)	$1,157
Milk (quart)	$.07
Bread (loaf)	$.04
Steak (pound)	$.15
Stamp	$.02

Charles Schwab was President of the then fledgling Bethlehem Steel Co. The small steel company was struggling due to its inefficiency and poor sales. Mr. Schwab was of course a very busy man and had little time to waste with sales people.

One day Mr. Ivy Lee (a business consultant) made a call to Bethlehem Steel and asked if he might have a few minutes of Mr. Schwab's time. He was met with reluctance but persisted and was granted a short interview with the busy business executive.

"Ok" Mr. Schwab said "What do you have in mind"? The optimistic Mr. Lee told Schwab that if he would allow him to spend only fifteen minutes with him and

each of his managers he (Lee) could increase the efficiency of his entire company and that Schwab and his managers would learn to "manage better".

The indignant Schwab said, "I'm not managing as well now as I know how? What we need around here is not more "knowing" but more doing, not knowledge but action! If you can give us something to pep us up to do the things we **"already know"** we ought to do, I'll gladly pay you anything you ask".

"By the way, what do you propose to charge me for your services" asked Schwab. Mr. Lee replied "Nothing, unless it works. I will provide the service and in three months you can send me a check for whatever you feel it was worth to you". Mr. Schwab, thinking he had little to lose, shook Lee's hand and the deal was made.

Lee indeed spent only about fifteen minutes with Schwab and each of his executives. At each meeting Lee asked each manager to do the following:

At the end of each day they were to:

Write the six most important things for the next day
Mark the most important item with #1
The second with a #2 and so on until all were marked
First thing the next morning—start working on task #1
Upon completion, check off the item
Immediately start on the next task

Only a few weeks passed when Mr. Lee received a letter from the Bethlehem Steel Company. Inside the envelope, Mr. Lee found a check in the amount of $25,000.00 and a note from Schwab saying *"the lesson was the most profitable from a money standpoint he had ever learned".*

Do you think that possible efficiency and sales had increased at Bethlehem Steel? In the five years that followed, Schwab turned the unknown Bethlehem Steel Company into the largest independent steel producer in the world and Schwab became a millionaire a hundred times over. Charles Schwab became the best known steel man alive at that time.

Many successful business people have used this simple formula to take control of their time and manage their businesses more effectively. My real estate business has profited greatly b y using this method and I believe that any real estate investor will increase their chances of success dramatically by putting this time management system into use.

I heard this story back in 1975 on a motivational tape set. I did some writing in the early 1990's and I was trying to find that story to put in my writing about "Time Management". At that time I lived in Carrolton and every day I passed by the Mary Kay Corp. and someone told me that Mary Kay used that story. I called the Mary Kay Corp and talked to Mary Kay's assistant. Later that day Mary Kay wrote the story out by hand and faxed it to me. She said she had told that story many times to her worldwide group of managers.

Top 10 Time Savers

1. **Use a Management System**
2. **Delegate**
3. **Time Management Study & Training**
4. **Say---No!**
5. **Office Organization—Clean Desk, Fire System**
6. **Use Speed Systems—Keys, Storing Phone #'s**
7. **Keep Meetings on Track**
8. **Learn to Type Faster & Use Micro Keys vs. Mouse**
9. **Preventative Maintenance—Car, Home, Work**
10. **Always be Looking for Ways to Save Time**
    - **Coordinate Colors of Clothes**
    - **Get a Check Card**
    - **Write Your Name Fast—Neatness Doesn't Matter!**

I'm going to go over a few things that you can do to improve your time management in your life. The first is to ***use a time management system***. It doesn't need to be the one I just gave you or any of the others I am going to give you. You can find hundreds of time management systems in the library or on the internet. The best one I have ever found is *"Getting Things Done Fast"* by David Allen.

The second one is to ***delegate***. If there's anything that's on your list that's not as important as your time get someone else to do it. Have a delegation list every day. The people that work for me know they are going to get a list daily. I make lots of delegation lists and that gives me time to do things that are important to me.

If you study *time management training* materials and read books and become good at it and you will have more time to do things that you need to do. Here is a good thing to remember, Nancy Reagan's answer to the drug problem, ***"Just say no".*** Another answer to time is to learn to say no to things that aren't important to you. Practice saying *"no"* diplomatically and being able to decline invitations gracefully.

"LEARN TO SAY "NO" TO THINGS THAT AREN'T IMPORTANT TO YOU"

Your office needs to be organized. Have a clean desk and a good filing system. Have you spent thirty minutes over the last month looking for something you should have been able to find? The more organized you are the less time you will waste looking for something that wasn't where it should have been.

Use speed systems—for example if you have numbers that you call frequently—key them into speed dial to save time on phone calls. Use those kinds of speed systems whenever you can.

Keep meetings on track—don't let people take over your meetings and draw them out for three or four hours.

"Don't let people take over your meetings"

Learn to type faster—take a course if you need to. Use the micro key on your computer keyboard rather than the mouse. A mouse might take three to four clicks but if you learn to use the keys you don't even have to think—the key strokes become automatic.

Do the *preventative maintenance* on your home and car. If your car breaks down in the middle of a busy freeway it's going to ruin your day. It's much better to have your car finely tuned and the fluids and air pressure checked periodically. Do preventative maintenance on your home so you don't have down time on your home utilities.

Improve your communications—use cell phones and radios etc. and that will save time make your business run more smoothly.

If you have several crews that are fixing up your houses, *radios* will let you be in touch with them instantly. Always be looking for ways to save time, for example, what you're going to wear every day.

Organize your wardrobe so that it all works together instead of having to spend too much time matching items. Albert Einstein always wore exactly the same coat, pants, shirt and socks. The reason was that time was important to him and clothes weren't—so it didn't matter what he picked out because everything matched.

Get a check card —it's quicker than writing a check. Learn to sign your name fast, in this business when you go to a closing you don't want to be there a long time. You're going to have to learn to sign your name fast—they don't care how you sign your name.

System

- Capture With Recorder or Note Pad
  - Things to do
  - Ideas
  - Reference information
  - Goals & projects
- Unload Daily to a Master List File
  - Sort Tasks and assign a day
  - Delegate as much as possible
  - Move project to a project/goals file
  - Move reference items to a reference file
  - Plan today on your daily list file
- Do Weekly Review
  - Goals
  - Projects
  - Low priority tasks

Now we're going to get into a system that is a little more complicated and if you don't get it all that's okay. This is really a great system if you can grasp it and make it work.

First you capture every idea that goes through your mind. I keep a *voice recorder* in my car—if I see a house that I'm interested in—I put it in the recorder. I also record phone numbers of those that might be interested in

coming to a meeting or I record any great ideas I might come up with while riding around.

To make this work you need *to unload the recorder every day* and file all the numbers and ideas you have recorded. If you don't unload it you'll run out of tape and there'll be too much to do at once. I unload to a master list and then sort each item. Delegate as much as possible—move the projects and goals to a different file. Reference material goes to a reference file and plan the day on the daily file by moving the items that have to be done today or that you want to do today to a daily file.

Once a week do a weekly review of your goals and projects and pick out which projects to work on next week.

If you don't take anything else away from this book—set up a reference list on a Word file then you will save a great deal of time because if you want to find someone's phone number you can go to your reference file and do a search for the name or number and it will come up instantly. For example if I have ever done any business with you over the last twenty years chances are I can type your name in "search" and your information will come up. On the first page of the reference file put the most commonly used numbers so you can get to those really quickly. A reference file will save you a lot of time and money.

My team file includes a page for anyone to whom I will be delegating projects tasks. A calendar locks in all your appointments.

Your daily list should be a calendar and the page that appears on top should be today. The next page would be tomorrow etc. and it will extend out for three months so if someone calls you and asks what you are going to be doing on a certain day you can go to your calendar and see what is scheduled for that day. When you do away with today—tomorrow's list comes up. If you want to handle a lot of big, hard projects and make a lot of money you need to have a system to keep your projects moving forward so you know which projects are

important and what the top priorities are so you can move them to your master list and daily list. I suggest you read "Getting Things Done Fast" by David Allen and "Crystal Cathedral" by Robert Schuler.

Summary

"Ask yourself what is the most important thing you need to accomplish, and what are you doing about it – today?"

Robert Schuler

Years ago Schuler said "just ask yourself what the most important thing is you need to accomplish and what are you going to do about it today". He has gotten a lot accomplished just by using that one simple time management system.

I use two different calendars—"Microsoft Outlook" and "Microsoft Works". I use two different calendars because one is a continuous calendar and the other one is a month to month calendar. They both have their advantages.

Computer Files

- Master List
- Goals/Projects Lists
- Reference List
    - Phone numbers
    - Addresses
    - Quotes
    - Contacts
    - Codes
    - Usernames & passwords
    - Committees
    - Any information you might need for future reference
    - Check lists that can be reused—example: trip packing lists
- Team Lists
- Calendar
- Daily List

One thing you can do that would help a lot—(if you have numerous properties—too many to even remember the addresses much less the square footage)—put the properties on Power Point so you can read the names of the properties easily and have the property's name in big letters with whatever notes you need

to make below it. Move the critical ones to the top and as you take care of maintenance on those properties you can move them to the bottom of the page. That is an efficient way to keep them sorted.

"***Sorting***" can make "time management" work for you more than anything else. If you will learn how to use the sort key in your word processor you can type a list of things to do and just put a reference letter or number beside each one like (R) for reference or (T) for team and it will sort them all out for you.

Sorting is a very important tool and when you have a lot of things to deal with like you do in property management using "sort" in Power Point lets you group tasks and it makes it very simple to know what has to be done today.   Your five most important tasks should always be typed across the top so you will always work on number one and when that is finished you can move on to number two.

The company I used to work for was a Fortune 500 Company. I took Time Management Classes—in fact I took about all of them at that time. One of the books I read told how to de-clutter a desk and it only takes a few minutes.

Take a large box and place it at the end of your desk and then just sweep everything in the box. Look through the box and only put the things back that are really important and let everything else stay in the box. If you'll just do that occasionally your desk won't be cluttered and eventually if you lose anything you'll be more careful.

Another topic in time management is stacks. Do you have stacks of things laying around at home? Another time management project to do is put all your stacks in one area and go through everything and either file it or throw it away. Keep doing this until the stacks are gone.

One other technique would be give ten things away, throw ten things away and sell ten things (for example eBay). If you do that every day or once a week it won't be long before your house is looking a lot nicer and cleaner and when you get ready to move you won't have so much to go through. If you give things to Missions, Salvation Army or Good Will and you keep a list and a value you can deduct that from your Income Tax at the end of the year.

Well, now we have gone through many techniques and tactics for investing in real estate. Now it's time to actually begin investing.

The most important thing about learning to invest and becoming successful is education. I have read all the books and listened to all the CDs for years. If you get in my car there's always a CD in the CD player. I have put the best CD's, books and materials on my website. If you've ever bought any of these materials on my website you know they're the very best. Just go to www.dennisjhenson.com— there are free reports, links to other websites and an abundance of free materials.

On the following page is a partial list of books and materials you can get on my website.

Continuing Education

Listen to CD's While Driving and Read

- "Subject To" Mortgage Handbook
- CD's Available at Discount
- "Are You Dumb Enough" by William Barnett
- "Nothing Down" by Robert Allen
- "No Money Down" by Carleton Sheets
- "Weekend Millionaire" by Roger Dawson
- Tapes and CD's from Nightingale Conant
- "Getting Things Done Fast" by David Allen

Find All These and More at

www.dennisjhenson.com

Glossary of Real Estate Terms

ABANDONMENT – The voluntary surrender of property rights, with no intention of reclaiming them and without vesting interest in another person. Nonuse is not necessarily abandonment.

ABSTRACT – A history of the ownership of a property, showing transfers in ownership and factors affecting ownership, such as mortgages.

ACCELERATION CLAUSE – A clause in a promissory note, agreement of sale, or mortgage which gives the lender the right to call all sums due and payable in advance of the fixed payment date upon the occurrence of a specified event, such as a sale, default, assignment or further encumbrance of the property.

ACCEPTANCE – The expression of the intention of the person receiving an offer (offeree, usually the seller) to be bound by the terms of the offer. The acceptance must be communicated to the offeror and must be in writing to be enforceable. The buyer has the right to revoke the offer any time before the seller's acceptance.

ACCRUED DEPRECIATION – The difference between the present worth of improvements and the reproduction or replacement cost new, both measured on the appraisal date.

ACQUISITION – The act of becoming the owner of certain property; used also of the thing or property acquired.

ACRE – A measure of land equaling 43,560 square feet; or 4,840 square yards; or 160 square rods; or a tract about 208.71 feet square.

ADMINISTRATOR – A person appointed by the court to manage and settle the estate of a deceased person who has left no will.

ADVERSE POSSESSION - Acquisition of title to real property owned by someone else, by open, notorious, and continuous possession for the statutory period of time. Burden to prove title is on the possessor, who does not have a marketable title until he obtains and records a judicial decree quieting title. No right of adverse possession may be obtained against the United States.

AFFIDAVIT - A written declaration, sworn before an officer who has authority to administer oaths.

AGREEMENT OF SALE - A written agreement whereby the purchaser agrees to buy certain real estate and the seller agrees to sell upon terms and conditions set forth in the agreement.

ALLOTMENT - Authorization by the head of an agency to subordinates to incur financial obligations up to a specified amount. An agency makes allotments under the regulations in OMB Circular No. A-34, and not to exceed the amount allowed by OMB.

AMENITIES - Tangible and intangible benefits generated and received through exercise of rights to real property, not necessarily in the form of money.

AMORTIZATION - Liquidation or gradual retirement of a financial obligation by periodic installments.

AMORTIZATION PERIOD - The period of time for economic recovery of the net investment in a project. This period is the lesser of 1) the period of time over which the plan can be expected to serve a useful purpose, or 2) the period of time when further discounting of beneficial and adverse effects will not appreciably influence design.

ANALYZED PRINT OUT - A summary page on a piece of property generated from Turbo Bidder (a real estate investing tool).

ANGLE – A measure of rotation about a point, generally used in surveys to show the relationship of one line to another. Angles are usually measured in degrees, 360 degrees to a full circle or one full rotation back to the point of beginning. Each degree is broken down into 60 minutes, and each minute into 60 seconds.

ANIMAL UNIT – A measure of numbers of livestock equivalent to a mature cow. One A.U. equals 1,000 pounds live weight, or one cow, horse, or mule; five sheep or swine; six goats.

ANNEXATION – The act of attaching, adding or joining one thing to another, generally a smaller or subordinate thing with a large or principal thing. Usually with respect to land or fixtures.

APPLICATION – A form used to apply for a mortgage loan, containing information about the borrower's income, savings, assets, debts etc.

APPORTIONMENT – A distribution by OMB of amounts available for obligation in an appropriation or fund account, including budgetary reserves established by law. An apportionment divides amounts by specific time periods (quarters), activities, projects, objects, or a combination.

APPRAISAL – A written estimate and opinion of value; a conclusion resulting from the analysis of facts.

APPRAISER – One qualified by education, training, and experience that is hired to estimate the value of real and personal property based upon experience, judgment, facts, and the use of the formal appraisal processes.

APPRECIATION – An increased conversion value of property or mediums of exchange due to economic or related causes which may prove to be either temporary or permanent.

APPROPRIATION - Authorization by act of Congress permitting Federal agencies to incur obligations and make payments out of the 'treasury for specific purposes.

ASKING PRICE (LIST) – The price placed on property for sale.

ASSESSED VALUATION - An assessment of property values, by a unit of Government, for purposes of taxation.

ASSESSMENT - A charge against real estate made by a unit of government to cover a proportionate cost of an improvement, such as street or sewer.

ASSESSOR – A public official who establishes the value of a property for tax purposes.

ASSETS - All valuable things owned by a person, corporation, or other entity, encumbered or not.

ASSIGNMENT (OF TEASE) - A transfer to another of rights, interest, or claim in or to real or personal property. The party who assigns or transfers his interest is the assignor, and the assignee is the one to whom the assignment is made.

ASSUMPTION AGREEMENT - An undertaking of a debt or obligation primarily resting upon another person.

ASSUMPTION OF MORTGAGE - The taking of title to property by a grantee wherein he assumes liability for payment of an existing note secured by a mortgage or deed of trust against the property. He becomes a co-guarantor for the payment of the mortgage or deed of trust along with the original maker of the note, who is not released from his responsibility.

ATTACHMENT - The legal process of seizing the real or personal property of a defendant in a law suit, by levy or judicial order, and holding it in the custody of the court as security for satisfaction of the judgment.

ATTORNEY IN FACT - A person authorized to perform certain acts for another person, under power of attorney.

AUCTION – A public sale of property to the highest bidder.

AUDIT - An examination of records of real estate transactions to verify accuracy and adequacy.

BALLOON PAYMENT - A final payment on a note. It is usually substantially larger than any of the preceding installments.

BENEFICIARY - A person who receives and benefits from the gifts or acts of another, such as one who is designated to receive the proceeds from a will or trust.

BEQUEATH - To leave personal property to another by will. To leave real property by will is to devise.

BILL OF SALE - A written instrument transferring title, right, and interest in personal property to another.

BINDER - An agreement to cover an earnest money deposit for the purchase of real property as evidence of the purchaser's good faith and intention to complete the transaction.

BLANKET MORTGAGE – A single mortgage which covets more than one piece of real estate.

BOND - Any obligation under seal. A real estate bond is a written obligation, usually issued on security of a mortgage or a trust deed.

BREACH OF CONTRACT - Violation of any of the terms or conditions of a contract without legal excuse.

BROKER – A person who, for a commission or a fee, brings parties together and assists in negotiating contracts between them. See mortgage broker.

CAPITALIZATION - In appraising, determining value of property by considering net income and percentage of reasonable return on the investment.

CAPITALIZATION RATE - The percentage ratio between net income from investment and the value of the investment. Commonly expressed as "return on and return of" capital.

CARTOGRAPHY - The science or act of making maps.

CASH VALUE - The actual money that an Asset will bring on the open market without any lengthy delay.

CAVEAT EMPTOR - "Let the buyer beware" is Latin. Summarizes the rule that the buyer must examine, judge and test merchandise/property for himself.

CERTIFICATE OF TITLE - A document stating that title to a particular property is clear. It is prepared by an attorney or qualified person who has examined the abstract of title, but is not to be confused with title insurance. It is only an opinion that title is good. Usually given to a homeowner with the deed.

CHATTEL - Personal property which is tangible and movable. (The word "chattel" evolved from the word "cattle", one of man's early important possessions.)

CLEAR TITLE - A title free and clear of all encumbrances.

CLOSING – A meeting at which a sale of a property is finalized by the buyer signing the mortgage documents and paying closing costs.

CLOSING COSTS – Expenses (over and above the price of the property) incurred by buyers and sellers in transferring ownership of a property. Closing costs normally include an origination fee, an attorney's fee, taxes, an amount placed in escrow, and charges for obtaining title insurance and a survey. Closing costs percentage will vary according to the area of the country; lenders or realtors often provide estimates of closing costs to prospective homebuyers.

CLOSING STATEMENT - An accounting by a broker of funds in a real estate sale, made to the seller and to the buyer.

CLOUD ON TITLE - An outstanding claim or encumbrance which would affect or impair the owner's title, if valid. A judgment or dower interest.

COINSURANCE - A relative division of risk between the insurer and insured, depending on relative amount of the policy and the actual value of the property insured. Takes effect only with partial loss, less than the amount of the policy coinsurance clauses induce the owner to carry full or nearly full coverage.

COLLOCATE - Sharing of one property by more than one user; especially armed forces recruiting facilities.

COLLATERAL SECURITY - A separate obligation attached to a contract to guarantee its performance; the transfer of property or of other contracts or valuables, to ensure the performance of a principal agreement.

COMMON ELEMENT - In a condominium, land and parts of buildings used by all owners for mutual convenience and safety. See CONDOMINIUM

COMMON EXPENSE - In a condominium, expenses of operation and sums declared by the bylaws to be common expense.

COMMUNITY PROPERTY - Property accumulated through joint efforts of husband and wife, or by either one, during their marriage and owned in common.

COMPARABLE - Properties listed in an appraisal report which are substantially equivalent to the subject property, comparable in selling price, rental, income or similar measure.

COMPENSABLE INTEREST - Interest of parties that is to be compensated.

COMPLIANCE INSPECTION - Inspection of outgrants, military and civil, for compliance with terms of the outgrant and to review management/development of the property, particularly of outgrants which provide services to the general public.

COMPOUND INTEREST - Interest paid both on the original principal and on interest accrued from the time it fell due.

CONDEMNATION - In real property law, the process by which property of a private owner is taken for public use, with just compensation to the owner. Condemnation occurs under the right of eminent domain.

CONDITIONAL COMMITMENT - A commitment for a loan subject to one or more conditions.

CONDITIONAL SALE CONTRACT - A contract whereby the owner retains title to the property until the purchaser has met all of the terms and conditions of the contract.

CONDOMINIUM - Fee ownership of a unit in multi-unit building with joint ownership of common areas.

CONSIDERATION – An act or forbearance, or the promise thereof, which is offered by one party to induce another to enter into a contract; that which is given in exchange for something from another. Consideration is usually something of value, such as the purchase price in money, though it may be personal services or exchanged property. It is the price bargained for and paid for a promise.

CONTINGENCY – A condition that must be met before a contract is legally binding.

CONTAMINATION – Presence of unexploded conventional ordnance, or of biological, radioactive, toxic chemical, or hazardous substances (defined in comprehensive Environmental Response Compensation and Liability Act of 1980) at levels that present a public hazard or exceed applicable standards.

CONTRACT – An agreement, either oral or written to do or not to do certain things. In real estate, there are many different types of contracts, including listings, contracts of sale, options, mortgages, assignments, leases, deeds, escrow agreements, and loan commitments, among others.

CONTRACT RENT – Payment for use of property, as specified in a lease.

CONVENTIONAL MORTGAGE – A mortgage on real estate securing a loan made by a private investor, not guaranteed by a Government agency such as FHA or VA.

CONVEYANCE – The transfer of title to real property by means of a written instrument, such as a deed.

COST OF REPRODUCTION – The normal cost of exact duplication of a property with the same or closely similar materials as of a certain date or period.

COVENANT – A written agreement in a deed which pledges that either party will perform or abstain from specified acts on a certain property, or which specifies or forbids certain uses of the property.

CREDIT – An agreement in which a borrower receives something of value in exchange for a promise to repay the lender at a later date.

CREDIT HISTORY – A record of an individual's open and fully repaid debts. A credit history helps a lender determine whether a potential borrower has a history of repaying debts in a timely manner.

CREDIT REPORT – A report of an individual's credit history prepared by a credit bureau and used by a lender in determining a loan applicant's creditworthiness.

CRITERIA – The standards you set for the real estate you choose to invest in.

DAMAGES – Compensation or indemnity recovered through the courts by any person who has suffered loss, detriment or injury to person, property or rights. A sum of money awarded to a person injured by an act of another. May be compensatory or punitive.

DEBT SERVICE – Periodic payment on a debt, for interest on and retirement of the principal.

DEED – A legal instrument in writing, duly executed, sealed, and delivered, whereby the owner of real property (grantor) conveys to another (grantee) some right, title, or interest in real estate.

DEED RESTRICTION – A provision in a deed controlling or limiting the use of the land.

DEFAULT – Failure to perform a specific, required legal duty.

DEFERRED MAINTENANCE – Existing but unfulfilled requirements for repairs and rehabilitation, deferred until a later date.

DEFICIENCY JUDGMENT – At a foreclosure sale, the difference between the indebtedness sued upon and the sale price or market value of the real estate.

DEFICIENCY PAYMENT – Additional compensation required in a final judgment in condemnation proceedings. See also DEFICIENCY JUDGMENT.

DEPOSIT – A sum of money given to bind the sale of real estate, or a sum of money given to insure payment or an advance of funds in the processing of a loan.

DEPRECIATION – (1) A lowering of value. A reduction; lessening. The decline in value of property. Loss in market value. Deterioration over a period of time. The opposite of appreciation. (2) In appraising, depreciation is the reduction on value of a property as measured from the cost to replace it. It is the difference between the replacement cost and the market value. (3) In accounting, it is a write-off (usually annually) of a portion of an asset on the records.

DETERIORATION – Impairment of condition. One of the causes of depreciation and reflecting the loss in value brought about by wear and tear, disintegration, use in service, and the action of the elements.

DEVISE – A transfer of real property under a will. The donor is the devisor and the recipient is the devisee. Where there is no will, the real property "descends" to the heirs.

DISCOUNT – (1) That which can be taken off the established amount. Mortgages, for example, are frequently discounted when paid in advance of maturity. (2) A sum paid to obtain certain preferred mortgages, as the payment of points to a lending institution for FHA and VA mortgages.

DISPOSSESS - To deprive a person of possession and/or use of real property.

DOWN PAYMENT – The part of the purchase price of a property that the buyer pays in cash and does not finance with a mortgage.

DUE-ON-SALE PROVISION – A provision in a mortgage that allows the lender to demand repayment in full if the borrower sells the property that serves as security for the mortgage.

EASEMENT - A privilege or right which the owner of one parcel of land may have to use or enjoy the lands of another, i.e., a right-of-way.

EARNEST MONEY - The cash deposit made by a purchaser of real estate as evidence of good faith.

EBAY – An online auction site www.ebay.com.

EMINENT DOMAIN - The right of the government, both state and federal, to take private property for a necessary public use, with just compensation paid to the owner.

ENCROACHMENT - Trespass; the building of a structure or any improvements partly or wholly intruding upon the property of another.

ENCUMBRANCE - Any claim, lien, charge or liability attached to and binding upon real property which may lessen the value of the property but will not necessarily prevent transfer of title.

EQUITY - In real estate, the interest or value of the real estate over and above the amount of the indebtedness thereon.

ESCALATION CLAUSE - A clause in a lease which causes a rent increase, contingent on a specific action.

ESCROW – In real estate, it is the state or condition of a deed which is conditionally held by a third party, called the escrow agent, pending the performance or fulfillment of some act or condition.

ESCROW AGREEMENT – A written agreement between two or more parties whereby the grantor, promisor or obligor, delivers certain instruments or property into the hands of a third party, the escrow agent, to be held by said third party until the happening of a contingency or performance of a condition, and then to be delivered to the grantee, promisee, or obligee.

ESTATE – In real estate it refers to the degree, quantity, nature, and extent of interest which a person has in real property, such as a fee simple absolute estate, an estate for years.

EVICTION – Dispossession by process of law; the act of depriving a person of the possession of lands he has held pursuant to a judgment of the court.

EXCHANGE – Disposal of any real interest by exchanging it for another real interest of equal value instead of cash.

EXECUTOR – An individual or institution designated in a will and appointed by a court to settle the estate of the testator.

EZ RENT TO OWN – The process of renting a house to someone with a Rental Agreement and a Purchase Agreement. The rent and deposit is applied to the purchase price.

FAIR MARKET VALUE – Legal term synonymous with MARKET VALUE.

FIRST MORTGAGE – The mortgage on property that is superior in right to any other mortgage.

FIXTURE – A chattel which is affixed to and becomes a part of real

property.

FORECLOSURE - Procedure whereby property pledged as security for a debt is sold to pay the debt in event of default in payments or terms.

GENERAL LIEN - A lien which attaches to all property owned by the debtor.

GENERAL WARRANTY - A covenant in the deed whereby the grantor agrees to protect the grantee against the world.

GOOD OFFER – A good offer is one that—when accepted, is low enough to guarantee an excellent return on the investment of time and money.

GRANT - The act of conveying or transferring real property, the operative words in a conveyance of real estate are to "grant, bargain, and sell". The grantor (the person who conveys the real estate) delivers the grant, in the form of a deed, to the grantee.

GRANTEE - Entity to whom a grant is made, or to whom real estate is conveyed. The buyer.

GRANTOR - Entity who makes a grant, conveys real estate by deed. The seller.

GROSS INCOME - The projected annual income from operation of a business or from management of a property.

GROSS RENT MULTIPLIER - Ratio of sales price to monthly rental income for single family residential properties.

GROUND LEASE - A lease to use land for a stated period; may be secured by improvements which the tenant will provide.

HARD MONEY – Hard terms.

HARD MONEY LOANS – Also known as private money loans, they are usually made by private, non banking organizations which are generally secured by real estate and command interest rates higher than a typical bank would require because they usually carry more risk.

HOA – A collectivity of home owners into which monthly fees are paid in exchange for the ability to use common areas.

HOLDOVER TENANT - A tenant who remains in possession of leased property after the expiration date of the lease term.

HOME STEAD - A home that is used as a personal residence. Where there is homestead protection, the homeowner generally files a homestead declaration with the county recorder, setting forth his marital status, describing the land and estimating the value of the homestead. The homestead is then exempt from creditor's claims up to the statutory amount.

HUD (Housing and Urban Development) – The federal department responsible for the major housing programs in the U.S. including HUD auctions.

HVAC – An abbreviation for Heat, Ventilation and Air conditioning and refers to the climate control system in a building.

IMPROVEMENTS - An addition to land which costs labor or capital (buildings, pavements, etc.), more or less permanently attached. More than repair or replacement.

INCOME PROPERTY - Property owned or purchased primarily for the monetary return it will bring. It may be classified as commercial, industrial, or residential.

INDEMNIFY - To protect against or keep free from loss/ damage. To insure. To repay for loss/damage. To compensate for loss, reimburse.

INFLATION – A rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market.

INSTALLED BUILDING EQUIPMENT - Equipment and furnishings required to make a building usable and attached as a permanent part of the structure (e.g., docks, overhead crane, etc.).

INSTALLMENT CONTRACT - Purchase of real estate upon an installment basis; upon default, payments are forfeited. Often called a LAND CONTRACT, the deed to the property is not given to the purchaser until either all or a certain portion of the purchase price has been paid.

INSTRUMENT - A written legal document created to affect the rights of the parties.

INTEREST – The fee charged for borrowing money.

INTEREST RATE – The rate of interest in effect for the monthly payment due.

INVOLUNTARY LEN - A lien imposed against property without consent of the owner; example: special assessments and Federal income tax.

JOINT AND SEVERAL - An obligation which binds two or more persons individually and jointly. This type of obligation can be enforced by joint action against all or separate actions against one or more.

JOINT TENANCY - Co-ownership of real property by two or more persons, whereby the joint tenancy have equal interest, accruing by the same conveyance, commencing at the same time, and held by equal and undivided possession. Joint tenancy includes the right of survivorship, by which interest of a deceased tenant passes to survivors.

JUDGMENT - The final determination of the rights and liabilities of the

parties in an action, as decreed by a court.

JUNIOR LIEN - A lien placed upon property after a previous lien has been made and recorded.

JUST COMPENSATION - Market value paid for real estate taken in a condemnation action.

LANDLORD - One who rents property to others.

LEASE - A written document by which the owner transfers the rights of use and occupancy of land and/or structures to another person or entity for a specified period of time in return for a specified rental.

LEGAL DESCRIPTION - A statement containing a designation by which land is identified according to a system set up by law or approved by law.

LESSEE - A person/entity to whom property is rented under terms of a lease.

LESSOR - A person who rents property under a lease; the landlord.

LEVERAGE - The use of debt financing of an investment to maximize the return per dollar of equity invested.

LIABILITY - Any drawback, debt, or obligation. Something that acts as a disadvantage. An obligation or duty that must be performed. The opposite of asset.

LICENSE - Authority to enter or use another person's land or property, without possessing estate in it; revocable. Would otherwise constitute a trespass.

LIEN - A hold or claim which one person has upon the property of another as a security for some debt or charge.

LIST OF REPAIRS – A summary of repairs that need to be made on a house before renting or selling it.

MARKET PRICE - The price paid regardless of pressures, motives, or intelligence.

MARKET VALUE - The price at which a willing seller would sell and a willing buyer would buy, neither being under abnormal pressure.

MECHANICS LIEN - A statutory lien to secure payment to material men and mechanics for materials and services used to repair, improve, or maintain real property.

MINERAL RIGHTS - The right to extract minerals from land. Does not include right to use the surface of the land to conduct mineral extraction. This must be obtained from the surface owner.

MLS (Multiple Listing Service) – An association of real estate agents providing for a pooling of listings and the sharing of commissions of a specified basis.

MORTGAGE - A legal instrument pledging a described property for repayment of a loan under certain terms.

MORTGAGE BROKER - An individual or firm that makes mortgage loans on its own behalf, with its own funds, usually expecting to re-sell the loans to lenders at a profit.

MORTGAGEE - one to whom a mortgage is made; the lender.

MORTGAGOR - One who makes a mortgage, the borrower.

NEGOTIABLE - A promissory note, or similar instrument, is said to be negotiable if title to the instrument, and the money it represents, can be transferred by mere endorsement and delivery by the holder, or by delivery only.

NET OPERATING INCOME (NOI) - in general, synonymous with net earnings, but considered a broader and better term; the balance remaining, after deducting from the gross income all operating expenses, maintenance, taxes, and losses pertaining to operating properties excepting interest or other financial charges on borrowed or other capital.

NET LEASE - A lease agreement whereby the lessee pays all property charges (taxes, insurance, maintenance) in addition to rent. Local market customs and terms vary, in some areas, "net, net" and "net, net, net" are used.

NOTE - A written instrument acknowledging a debt and promising payment.

NOTICE TO QUIT - A written notice from a landlord to a tenant that the tenant must vacate the premises at the end of the term or immediately, if the lease is at will.

OBLIGATION - Legal reservation of funds based on known requirements (a contract, for example), or a realistic estimate of costs.

OFFER - A promise by one party to act in a certain manner provided the other party will act in the manner requested. The offeror is the one who makes the offer to the offeree.

OPEN-END MORTGAGE - A mortgage containing a clause that permits the mortgagor to borrow money after the loan has been reduced without rewriting the mortgage.

OPTION – A privilege, acquired for a consideration, of demanding within a specified time the carrying out of a transaction upon stipulated terms. The optionor grants an option to an optionee.

OWNER FINANCING – A property purchase that is partly or wholly financed by the seller.

PERSONAL PROPERTY – All physical objects of a personal or movable nature subject to ownership, except real estate (real property). See also PROPERTY and REAL PROPERTY.

PLAT - Map of town, section, or subdivision, showing location and boundaries of individual properties.

PLOT - A piece of land.

POWER OF ATTORNEY - An instrument authorizing someone to act as another person's agent or attorney. The agent is attorney in fact, and his power is revoked at the death of the principal by operation of law. Power of attorney may be general or special.

PREPAYMENT PENALTY - Penalty for the payment of a mortgage or deed of trust note before it actually becomes due.

PRICE - The amount paid in legal tender, goods, or services; the consideration; purchase price. The terms for which a thing is done.

PRINCIPAL – Amount of a loan balance. In a mortgage payment of principal and interest, the principal repays the loan.

PROBATE – a court-supervised process by which the deceased person’s property is distributed to pay off the deceased person’s debts and then to give the remaining money and property to the rightful heirs.
The “estate” is composed of everything the decedent owned including real estate, cars, bank accounts, furniture, etc.

PROPERTY - The rights or interests a person has in the thing he owns; not, in the technical sense, the thing itself. These rights include the right to possess, to use, to encumber, to transfer and to exclude, commonly called the bundle of rights. In modern understanding, however, property has come to mean the thing itself to which certain ownership rights are attached. Property is either real or personal.

PURCHASE MONEY MORTGAGE - A mortgage given by the grantee to the grantor, on the same land and concurrently with the conveyance, to secure the unpaid balance of the purchase price.

QUITCLAIM DEED - A deed of conveyance with conveys to the grantee without warranty of title whatever interest, title, or claim the grantor possesses.

REAL ESTATE – Land and anything built on, growing on, or affixed to land.

REAL ESTATE AGENT – A person licensed to negotiate and transact the sale of real estate on behalf of the property owner.

REALTY - A term sometimes used as a collective noun for real property or real estate.

REDEMPTION - The right to redeem property during the foreclosure period; the right of an owner to redeem his property after a sale for taxes. Often referred to as Equity of Redemption.

RELATED FURNISHINGS - Property which is not fixed to or part of a building: furniture, furnishings, equipment.

RELEASE OF LIEN - The discharge of certain property from the lien of a judgment, mortgage, or claim.

RENT - Compensation, either in money, provisions, chattels, or labor, received by the owner of real estate from the occupant.

RENT TO OWN – A means of acquiring ownership over time without taking on debt.

REPLACEMENT COSTS - Cost of a building with equivalent utility but with modern materials and eliminating deficiencies of the building it replaces.

RESERVATION - A right reserved by an owner in the grant (sale or lease) of a property.

RESTRICTION - A limitation upon the use or occupancy of real estate, placed by covenant in deeds or by public legislative action.

REVERSION - The residue of an estate left in the grantor to commence in possession after the determination of some particular estate granted out by him. The return of land to the grantor and his heirs after the grant is over.

RIGHT OF SURVIVORSHIP - The distinctive characteristic of a joint tenancy (also tenancy by the entirety) by which the surviving joint tenants) succeeds to all right, title, and interest of the deceased joint tenant without the need for probate proceedings.

RIGHT-OF-ENTRY - A written instrument, binding on all parties, which provides authority to enter on certain premises to perform specified acts, without acquiring any estate or interest in the property.

RIGHT-OF-WAY - The right or privilege, acquired through accepted usage or by contract, to pass over a designated portion of the property of another. A right-of-way may be private, as in an access easement given a neighbor, or public, as in the right-of-way to use the highways and streets.

SALE-LEASEBACK - A situation where the owner of a piece of property wishes to sell the property and retain occupancy by leasing it from the buyer.

SALES CONTRACT - A contract by which buyer and seller agree to the terms of the sale.

SATISFACTION OF MORTGAGE - An instrument for recording and acknowledging payment for an indebtedness secured by a mortgage.

SCREENING – Circulation of notice within the Army of real property which is no longer required by one Army organization but may be required and useful to another.

SECOND MORTGAGE – A mortgage that has a lien position subordinate to the first mortgage.

SECONDARY FINANCING - A loan secured by a second mortgage or trust deed on real property.

SECURITY INTEREST - An interest in personal property or fixtures, obtained to ensure payment owed as performance of an obligation.

SITE - A parcel of land, sufficiently improved to be used as a building lot or for other purposes requiring an improved site.

SORTING – Sorting selected text by alphabetizing or by numerical order.

SPECIAL WARRANTY DEED - A deed in which the grantor warrants or guarantees the title only against defects arising during his ownership of the property and not against defects existing before the time of his ownership.

SUBDIVISION - Any land which is divided or is proposed to be divided for the purpose of disposition into two or more lots, parcels, units, or interests.

SUBJECT TO - The taking of title to Property by a grantee, wherein he is not responsible to the holder of the promissory note for the payment of any portion of the amount due. In the event of foreclosure, the most that he can lose is his equity in the property. The original maker of the note is not released from his responsibility.

SUBLETTING - A leasing by one tenant to another, who holds the right of use and occupancy subject to the original lease; the sub lessee.

SUBORDINATE - To make subject to, or junior to.

SURFACE RIGHTS - Ownership rights in a parcel of real estate that are limited to the surface and do not include air above the property (air rights) or minerals below the surface (subsurface rights).

SURRENDER - The cancellation of a lease by mutual consent of lessor and lessee.

SURVEY - The act by which the quantity and boundaries of a piece of land are ascertained; the paper containing a statement of the courses, distance, and quantity of land is also called a survey.

TACTICS – Ways to find deals in real estate.

TAX APPRAISAL – You can get this off any government website. It gives the Tax Appraisal Value, owner's name and address, deed date and number of prior owners.

TAX DEED - A deed given where property has been purchased at a sale to the public of property for nonpayment of taxes.

TAX LIEN - A government claim for unpaid real estate tax.

TAX SALE - A sale of property, usually at auction, for nonpayment of taxes assessed against it.

TENANCY IN COMMON - Co-ownership of real property by two or more persons, each entitled to possession according to his proportionate share. Unlike joint tenancy, there is no right of survivorship. See also JOINT TENANCY, TENANCY BY ENTIRETY, RIGHT OF SURVIVORSHIP.

TENANT - One who holds or possesses land or tenements by any kind of title, either in fee, for 'life, for years, or at will. In a popular sense, the one who has temporary use and occupation of lands or tenements which belong to another, the duration and other terms of whose occupations are usually defined by a lease, while the parties thereto are placed in the relationship of landlord and tenant.

TERM - The extent of time for which an estate is granted. For example, the period which is granted for the lessee to occupy the premises; it does not include the time between making the lease and the tenant's entry.

TERMINATION - End of a lease or contract, usually before the anticipated time; termination may be by mutual agreement or by exercise of one party of a legal remedy due to default of the other party.

TIME IS OF THE ESSENCE - One of the essential requirements to the forming of binding contract; it contemplates a punctual performance.

TITLE - The right to or ownership of lands. Also, the evidence of ownership. Title to property encompasses all the bundle of rights an owner possesses.

TITLE COMPANY - A company that specializes in examining and insuring titles to real estate.

TITLE INSURANCE - Indemnity against loss or damage resulting from defects in or liens on a title at the date of the insurance.

TRACT - An area of land contained in one description.

TRANSFER - Change of jurisdiction over real property from one Federal agency or department to another, including military departments and defense agencies.

TRUST DEED OR DEED OF TRUST - A deed conveying land to a trustee as collateral security for the payment of a debt; upon payment of a debt secured thereby, the deed of trust is released; upon default, the trustee has the power to sell the land and pay the debt.

TRUSTEE - One why holds property in trust for another to secure the performance of an obligation.

VALUE - Ability to command goods, including money, in exchange; the quantity of goods, including money, which should be commanded or received in exchange for the thing valued; utility; desirability. As applied to a property value may be broadly defined as "the present worth of all the rights to future benefits arising from ownership".

VENDOR - The person who transfers Property by sale.

VOID - That which is unenforceable; having no force or effect.

VOLUNTARY LIEN - Any lien placed upon property with consent of, or as a result of, the voluntary act of the owner.

WAIVER - The renunciation, abandonment, or surrender of a right, claim, or privilege.

WARRANTY DEED - A deed that contains a covenant that the grantor will protect the grantee against any claimant.

WRAPAROUND MORTGAGE – A mortgage that includes the remaining balance on an existing first mortgage plus an additional amount requested by the mortgagor. Full payments on both mortgages are made to the wraparound mortgagee, who then forwards the payments on the first mortgage to the first mortgagee.

ZILLOW – An online real estate service company. It allows users to see the value of millions of homes across the United States. It offers several features including giving value estimates of homes.

ZONING - The public regulation, through police power, of the character and extent of real estate use. Uniform restrictions on improvements, building height, density of population, and other factors regulate the use and development of private property.

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